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IHS Markit U.S. Services PMI™

Including IHS Markit U.S. Composite PMI™

Business activity expands at slowest pace in nine months amid softer demand

Key findings

Output growth slows amid softest rise in new business for 13 months

Backlogs of work increase at series record pace

Cost pressures intensify

Data were collected 03-30 September 2021.

U.S. service providers indicated a strong expansion in business activity during September, according to the latest PMI™ data. That said, the slowest rise in new business for 13 months and labour shortages hampered output growth, as the upturn softened to the weakest in 2021 to date. Total sales were weighed down by the spread of COVID-19 and a faster decline in new export orders. At the same time, pressure on capacity was reflected in the sharpest rise in backlogs of work since data collection began almost 12 years ago. Challenges expanding workforce numbers reportedly exacerbated difficulties clearing incoming new business.

Meanwhile, cost pressures built for a second month running as input prices rose at a steep rate. Firms continued to pass on higher costs to clients, but at the slowest pace for five months.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 54.9 in September, slightly higher than 54.4 posted by the earlier released 'flash' estimate but down from 55.1 in August. Output growth remained strong overall, despite softening to the slowest in nine months. Where an increase in business activity was reported, firms linked this to a sustained rise in client demand. The expansion was, however, hampered by insufficient capacity to process new work as well as demand having been subdued by COVID-19, notably in the hospitality sector.

Service providers signalled a solid upturn in new business during September, as firms noted the acquisition of new clients and further customer demand supported sales. That said, the rate of growth slowed further from the highs seen earlier in the year to a 13-month low.

U.S. Services PMI Business Activity Index
sa, >50 = growth since previous month



Source: IHS Markit.

At the same time, foreign client demand weakened again as new export orders fell for a second month running. The rate of contraction was solid overall and the fastest in 2021 so far.

In line with a sustained increase in new business, service sector firms registered another expansion in backlogs of work at the end of the third quarter. Difficulties processing new sales were worsened following significant labour shortages and transportation delays. The rate of growth in outstanding business was the fastest in the near 12-year series history.

Despite many reports of efforts to expand workforce numbers, service providers registered only a fractional rise in employment during September. The pace of increase was the second-slowest in the current 15-month sequence of job creation.

On the price front, the pace of cost inflation accelerated to the fastest for three months. Higher input prices were commonly attributed to greater supplier and transportation costs, alongside an increase in wage bills.

In contrast, the rate of charge inflation softened in September. Although marked, the pace of increase eased to the slowest since April following efforts by some firms to attract new business by waving certain fees.

Business expectations regarding the outlook for activity over the coming 12 months improved during September. Hopes of a reduction in COVID-19 cases and a further boost to client demand reportedly drove optimism. The degree of confidence was historically elevated and the strongest since June.

IHS Markit U.S. Composite PMI®

Slowest upturn in private sector output for a year in September

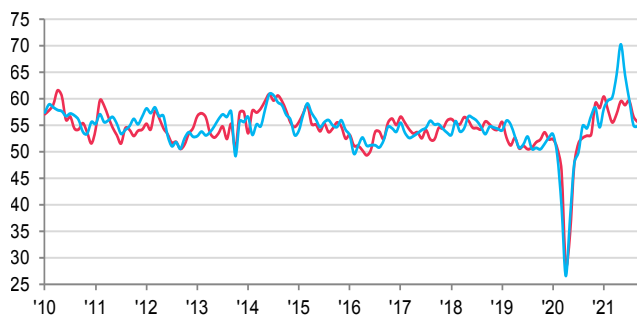
The IHS Markit U.S. Composite PMI Output Index* posted 55.0 in September, down from 55.4 in August to signal a strong, albeit slower expansion in private sector business activity. The rate of growth was the softest in a year amid slower upturns in both monitored sectors.

New business increased further during September, but the rate of expansion eased to the slowest in nine months. Manufacturers and service providers alike registered softer upticks in client demand. Goods producers reported a quicker rise in new export orders, which contrasted with a faster contraction in service sector foreign customer demand.

Labour shortages continued to hamper output growth across the private sector. Although rates of job creation quickened in the individual sectors, employment growth was historically subdued. At the same time, constraints on capacity were reflected in a series-record expansion in backlogs of work.

Meanwhile, inflationary pressures remained historically elevated as input costs and output charges rose markedly. The overall pace of charge inflation eased in September amid a slower rise in service sector selling prices.

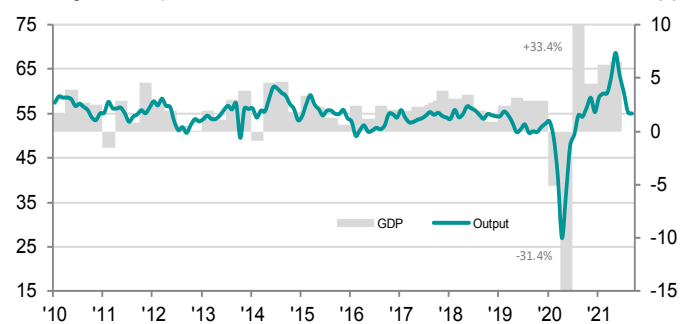
Services Business Activity Index
Manufacturing Output Index
sa, >50 = growth since previous month



Source: IHS Markit.

U.S. Composite PMI Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, Bureau of Economic Analyses.

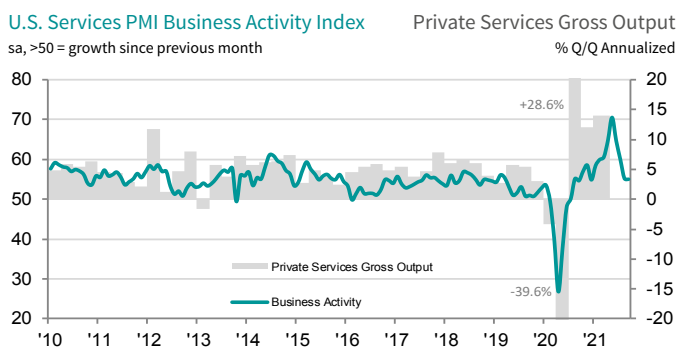
Comment

Commenting on the latest survey results, Chris Williamson, Chief Business Economist at IHS Markit, said:

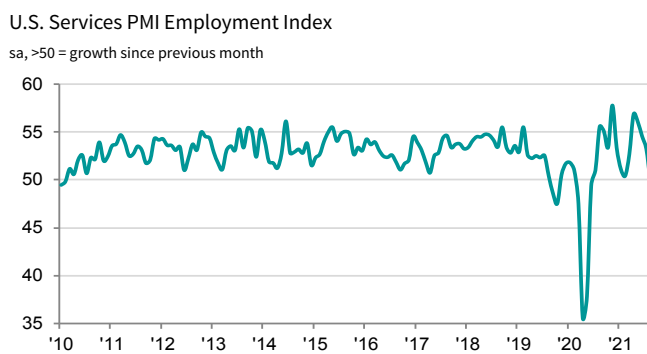
“The service sector showed further signs of struggling amid the COVID-19 Delta wave in September. While business activity is growing at a rate in line with the long-run average seen prior to the pandemic, this represents a marked downshifting from the spring and summer months.

“High virus case numbers have not only subdued demand for many services, notably among consumers in the hospitality sector, the pandemic continues to hit the labor market both in terms of staff absences amid the spread of the virus and low labor market participation rates meaning it is difficult to fill vacancies.

“With COVID-19 cases numbers appearing to have peaked early in September, the situation in terms of demand and labor supply should start to improve as we head into the fourth quarter; a sentiment supported by business optimism rising in the service sector to the highest since June and an unprecedented strong build-up of back orders.”



Sources: IHS Markit, Bureau of Economic Analysis.



Sources: IHS Markit.

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Survey methodology

The IHS Markit U.S. Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

Data were collected 03-30 October 2021.

Survey data were first collected October 2009.

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Flash vs. final data

Since October 2009 the average difference between final and flash Services Business Activity Index values is 0.2 (0.4 in absolute terms). Since October 2009 the average difference between final and flash Composite Output Index values is 0.1 (0.4 in absolute terms).

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Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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