

Embargoed until 0945 EDT (1345 UTC) 3 April 2020

IHS Markit U.S. Services PMI™

Including IHS Markit U.S. Composite PMI™

Business activity declines steeply amid COVID-19 pandemic

Key findings

Output and new business fall at fastest rates in series history

Employment contracts at joint-sharpest pace since December 2009

Business confidence drops to series low

U.S. service providers registered the steepest decline in business activity since data collection began ten-and-a-half years ago in March as the coronavirus disease 2019 (COVID-19) pandemic led to business closures and sharply reduced client demand for services from both businesses and households. Similarly, public health measures to tackle the spread of the virus across key export destinations caused a marked fall in new export orders. Consequently, firms were reportedly forced to implement hiring freezes and make redundancies, with business expectations over the coming 12 months slumping to a record low due to uncertainty surrounding the longevity of the COVID-19 outbreak.

Meanwhile, lower demand for inputs and efforts to retain clients led to decreases in input costs and selling prices, respectively.

The seasonally adjusted final IHS Markit US Services Business Activity Index registered 39.8 at the end of the first quarter, which, although revised up from the 'flash' figure of 39.1, was down sharply from 49.4 in February. The latest data, collected between 12th and 27th March, indicated the quickest decline in output since data collection began in October 2009. Business activity fell markedly following a sharp reduction in new orders, largely stemming from the outbreak of COVID-19.

Concurrently, new orders received by service providers contracted at the sharpest rate since the survey began, as customer and business closures led to client cancellations. The marked downturn in total sales was mirrored in the trend for new export orders, which fell at a substantial pace as foreign client demand faded amid emergency lockdowns.

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



Sources: IHS Markit.

March data also indicated a decrease in employment, as firms stated that lower new business inflows resulted in redundancies and enforced hiring freezes. The pace of job shedding was the joint-fastest since December 2009.

At the same time, a reduction in new orders allowed firms to process existing volumes of incomplete business. The depletion of backlogs of work was sharp overall, and the quickest in the series history.

In line with weak demand conditions, service providers registered the lowest degree of confidence in the outlook for output over the coming year since data collection began in October 2009. On average, firms expect business activity to be broadly unchanged in the next 12 months as optimism was weighed down by uncertainty surrounding both the longevity of the outbreak of COVID-19 and the following economic recovery.

Input costs faced by service providers decreased for the first time since last September in March. The marginal decline in supplier prices was linked by some firms to weaker demand for inputs following lower new orders.

Meanwhile, output charges also fell as service providers sought to retain clients and attract new customers. The decline in selling prices was solid overall and the fastest in the series history.

IHS Markit U.S. Composite PMI®

Private sector output contracts at fastest pace in series history

Lower business activity across both the manufacturing and service sectors led to by far the largest overall decline in output registered since comparable data were available in late-2009.

The IHS Markit Composite PMI Output Index* sank to a new low of 40.9 in March, notably down from 49.6 in February. The marked decrease in business activity stemmed mainly from the outbreak of COVID-19 and the impact of measures to contain the virus spread on companies and households across the country.

A key driving factor behind the downturn in output was a sharp reduction in new business. Client cancellations and customer closures reportedly weighed on demand conditions, as total sales and new export orders fell at the fastest rates since data collection began.

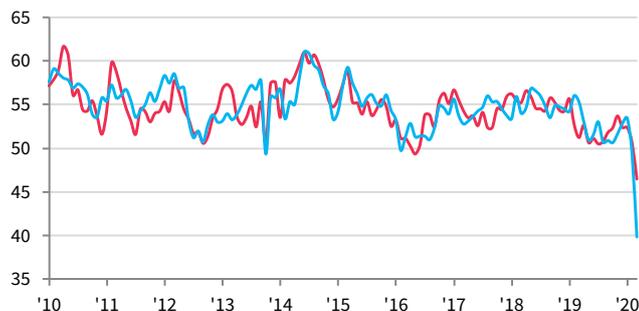
Subsequently, firms cut workforce numbers at a rate not seen since 2009, as backlogs of work were reduced further. Job shedding was linked to lower new business inflows and uncertainty regarding future new orders.

Meanwhile, a slide in business expectations regarding output in the year ahead to the lowest since comparable data were available in 2012 indicated heightened concerns about the outlook, as the period of COVID-19 disruption remains unknown.

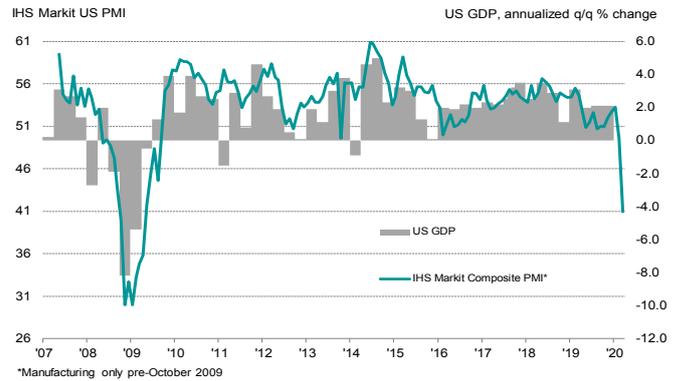
Reduced demand for inputs and U.S. produced goods and services led to decreases in input costs and selling prices. The fall in charges was the steepest yet recorded by the surveys and linked to increased price competition as firms struggled to retain customers.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The U.S. Composite Output Index is a weighted average of the U.S. Manufacturing Output Index and the U.S. Services Business Activity Index.

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



Source: IHS Markit.



*Manufacturing only pre-October 2009

Sources: IHS Markit, Bureau of Economic Analysis.

Comment

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

“Business activity slumped to the greatest extent for more than a decade in March as efforts to contain the spread of the COVID-19 pandemic intensified. The survey indicates that the economy contracted an annualised rate approaching 5% in March, but with more measures to fight the virus outbreak being taken this decline will likely be eclipsed by what we see in the second quarter. More non-essential businesses are being forced to close, some are going bust, and lockdowns are leading to vastly reduced consumer spending,

“Employment and prices charged for goods and services are already being slashed at rates not seen since 2009 as companies seek to aggressively cut costs and discount charges in the face of collapsing revenues. Given that the survey does not include the self-employed, the jobless numbers are likely to rise at a much faster rate than even the slide in the PMI indicates. The policy response to the economic damage from the virus has already been unprecedented, but the collapse in business expectations for the year ahead tells us that companies are expecting far worse to come. IHS Markit is now forecasting an around 5.5% contraction of US GDP in 2020.”

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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

March data were collected 12-26 March 2020.

Data collection began in October 2009.

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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.