IHS Markit U.S. Services PMI™
Including IHS Markit U.S. Composite PMI™

Slowest rise in business activity since February 2016

Key findings

Marginal upturn in output
Fastest fall in employment for almost a decade
Renewed rise in input prices

U.S. service providers reported a further slowdown in business activity growth in October, as new business stagnated and export demand dropped further. The marginal expansion was the weakest since early-2016 and resulted in the sharpest decrease in workforce numbers since December 2009. Nonetheless, firms noted a slightly more upbeat outlook for the year ahead.

Although input prices rose for the first time since July, the increase was only marginal and output charges were subsequently broadly unchanged.

The seasonally adjusted final IHS Markit US Services Business Activity Index registered 50.6 in October, dropping slightly from 50.9 in September and downwardly revised from the flash figure of 51.0. The rate of increase in business activity was only marginal overall and the slowest since the current expansion began in February 2016. Growth was weighed on by lacklustre client demand and greater hesitancy among customers to place orders.

Concurrently, the New Business Index posted below the 50.0 neutral mark for the first time since data collection began a decade ago, signalling a marginal drop new order levels. Companies stated that the postponement of orders placed by clients and weaker demand underpinned the broad stagnation.

Meanwhile, new export orders fell for the third month running. The rate of contraction eased slightly from September’s recent record, but was still the second-fastest fall in the series’ history (exports data have been collected as a stand-alone series since September 2014).

Subsequently, service providers registered a faster decline in employment in October as voluntary leavers were not replaced and firms struggled to fill outstanding vacancies. The rate of contraction was solid overall and the sharpest for almost a decade.

At the same time, backlogs of work fell for the third month running as service providers noted that weaker client demand allowed firms to process incoming new orders in a more timely manner.

On the price front, higher supplier and wage costs reportedly drove up input prices at service sector firms in October. The respective seasonally adjusted index posted above the 50.0 neutral mark for the first time since July to signal an increase in cost burdens. That said, the rise was only marginal overall.

In response to the rise in cost pressures, service providers kept selling prices broadly unchanged, following two monthly decreases. Some firms noted that greater cost burdens were partially passed on to clients.

Finally, service providers were slightly more upbeat regarding the output outlook for the year ahead in October. The degree of confidence picked up to reach a four-month high. Anecdotal evidence attributed stronger positive sentiment to the development of new service lines and low interest rates. That said, the level of optimism was well below the long-run series trend.
IHS Markit U.S. Services PMI™

The overall expansion in business activity remained subdued in October.

The IHS Markit Composite PMI Output Index* registered 50.9 in October, down slightly from 51.0 in September and signalling only a marginal rise in output across the private sector. The slowest increase in service sector business activity since February 2016 dampened overall growth, offsetting signs of faster growth in manufacturing.

Private sector new business growth fell close to stagnation during October, as broadly unchanged service sector client demand outweighed faster new order growth at manufacturers. Meanwhile, export demand weakened as new business from abroad fell for the third month running.

Although private sector firms were a little more upbeat towards the year ahead outlook for output, the surveyed companies cut jobs at the sharpest rate since December 2009, despite a fractional rise in manufacturing workforce numbers.

Finally, firms signalled a renewed rise in average selling prices for goods and services, with input prices rising at a historically muted pace.

*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.

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

“Although October saw signs of manufacturing pulling out of its recent soft patch, the far-larger service sector remained in the doldrums as inflows of new work failed to grow for the first time since 2009. Taken together, the manufacturing and service sector surveys consequently suggest that the US economy got off to a disappointing start in the fourth quarter, consistent with GDP growing at an annualized rate of less than 1.5%.

“With inflows of new work drying up, firms are relying on previously-placed orders to sustain current output growth, meaning the rate of expansion could weaken further in coming months if demand doesn’t revive. Hence we’re seeing jobs being cut at an increased rate among surveyed companies, with employment falling for a second successive month and to a degree not seen since 2009. Such a weakening of the survey’s employment index will likely feed through to the official jobs numbers as we move toward the end of the year.

“The news was by no means all negative, however, with firms becoming more optimistic about the year ahead, buoyed by hopes of an easing of trade tensions and stimulus from lower interest rates. However, the overall degree of optimism remains sharply lower than this time last year as companies remain concerned by ongoing uncertainty about the outlook.”

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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

October data were collected 11-28 October 2019.

Data collection began in October 2009.

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