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IHS Markit US Services PMI™

Including IHS Markit US Composite PMI™

Service sector reports sustained strong business growth, but costs surge higher

Key findings

Output and new orders rise sharply but growth rates cool

Cost inflation accelerates to second-highest on record

Job creation quickens, yet backlogs show near-record increase

Data were collected 12-30 November 2021.

November data signalled a further solid service sector performance across the US, according to the latest PMI™ data, as business activity and new orders continued to rise at strong paces. Although output continued to rise at a pace well above the survey's long-run average, supply and labor issues hampered activity to result in a modest easing in the rate of expansion. Despite employment rising at the fastest pace since June, firms continued to struggle to work through backlogs of work, which rose at the second-fastest pace on record.

Meanwhile, cost burdens surged higher. The rate of input price inflation accelerated to the quickest since May and the second-highest on record amid supply chain disruption and soaring wage bills. The pace of increase in selling prices slipped slightly, but remained marked overall.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 58.0 in November, down from 58.7 in October but above 57.0 recorded by the earlier released 'flash' estimate. Although the pace of expansion was stronger than the series average of 54.8, it was subdued in comparison to rates seen through 2021 so far. Some companies noted that higher output stemmed from the further recovery of client demand following the pandemic, others stated that concerns regarding a resurgence in COVID-19 cases and supply issues weighed on new order growth.

November data indicated a strong rise in new business across the service sector, with the rate of increase holding close to October's three-month high though remaining below the strong gains seen earlier in the year. Firms stated that the expansion in client demand was sustained but that supply chain issues and higher selling prices often acted as deterrents to customers

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



Source: IHS Markit.

placing orders. New export orders, on the other hand, returned to growth, posting the largest rise since June amid the reopening of some key markets to travel.

The rate of cost inflation quickened to the second-sharpest on record (since October 2009), beaten only by the rise seen in May. Firms stated that higher supplier and fuel costs, alongside greater wage bills, drove the increase in input prices.

Meanwhile, services firms continued to raise their selling prices in November. The rate of charge inflation eased from October's series record rise, but was faster than any other increase seen in just over 12 years of data collection. The marked uptick in output prices was overwhelmingly linked to efforts to pass through higher costs to clients.

Service providers were successful in expanding their workforce numbers in November, as the rate of job creation quickened to the fastest since June. Although firms still mentioned challenges keeping hold of staff and hiring suitable candidates for vacancies, many were able to relieve some pressure on capacity.

That said, backlogs of work rose at a sharp rate. The level of outstanding business increased at the second-steepest pace on record as supply and labor shortages stymied firms' ability to work through incoming new business.

Finally, the outlook for output over the coming year improved in November, with service providers registering more upbeat expectations. The level of optimism was the strongest since June amid hopes of greater client demand, increased stability in supply chains and an end to COVID-19 uncertainty.

IHS Markit US Composite PMI®

Private sector output rises at softer pace in November

The IHS Markit US Composite PMI Output Index* posted 57.2 in November, down from 57.6 in October but still signalling a marked overall expansion in private sector activity. Output was led by the service sector as factories were hampered by supply chain disruptions.

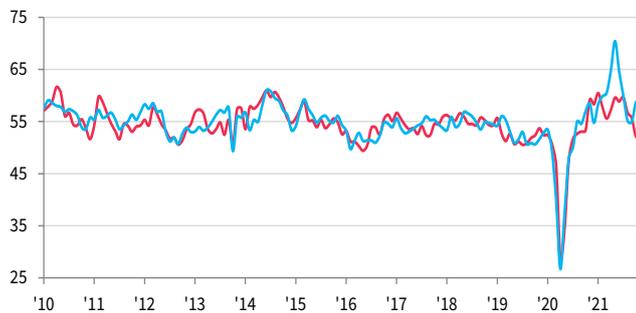
The upturn in new business was solid midway through the fourth quarter amid a strong expansion in services new orders. Meanwhile, foreign client demand signalled a renewed rise.

Sharper increases in manufacturing and service sector input prices led to the fastest rise in cost inflation on record (since October 2009). Alongside greater fuel and material costs, firms noted a steeper uptick in wage bills. Although the rate of charge inflation softened from October, it was the second-sharpest on record as firms sought to pass on higher costs to customers.

Despite ongoing reports of difficulties retaining workers, private sector employment rose sharply in November and at the fastest pace for five months. The rate of growth in backlogs of work softened, but it was the third-steepest on record.

Services Business Activity Index Manufacturing Output Index

sa, >50 = growth since previous month

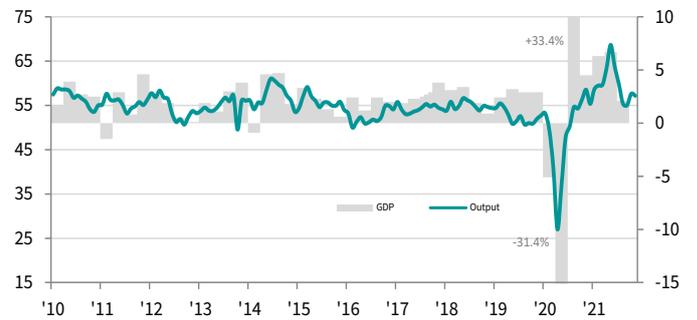


Source: IHS Markit.

US Composite PMI Output Index

sa, >50 = growth since previous month

GDP
% Q/Q Annualized



Sources: IHS Markit, Bureau of Economic Analyses.

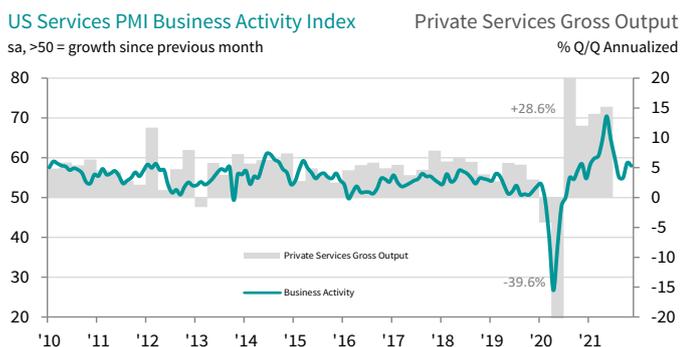
Comment

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

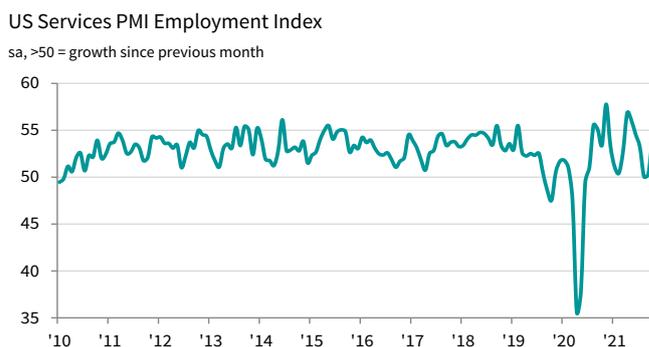
“US business activity continued to grow at a solid rate in November, adding to signs that the pace of economic growth is accelerating in the fourth quarter after the Delta-wave induced slowdown of the third quarter. While growth is not matching the surge seen earlier in the year when the economy reopened, the fourth quarter expansion should be well above the economy’s long-run trend to mark a solid end to the year.

“Growth is lopsided, however, being led by the service sector as manufacturing remains heavily constricted by supply shortages and, in some cases, labor supply issues. These constraints are also increasingly affecting service providers, as evidenced by the service sector reporting a near record build-up of uncompleted orders during November as companies often lacked the capacity to meet demand. Cost pressures in the service sector also spiked higher in November, generally linked to higher prices paid for inputs and staff due to shortages, the rate of inflation running just shy of May’s all-time peak.

“While business expectations for the year ahead rose in November, the vast majority of the survey data were collected prior to the news of the Omicron variant, which casts a renewed shadow of uncertainty over the outlook for business and poses a downside risk to near-term growth prospects.”



Sources: IHS Markit, Bureau of Economic Analysis.



Sources: IHS Markit.

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Survey methodology

The IHS Markit US 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 12-30 November 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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About PMI

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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