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## IHS MARKIT US SERVICES PMI™

INCLUDING IHS MARKIT US COMPOSITE PMI™

### New business expansion eases to slowest since March 2016

#### KEY FINDINGS

Output and new orders rise at only a marginal rate

Business expectations dip to lowest since June 2016

Input cost inflation weakest since September 2016

The latest survey data signalled only a marginal expansion in business activity across the U.S. service sector in May. The rise was the slowest since the current period of growth began in February 2016, amid softer demand conditions in domestic and foreign markets. A slower rise in input costs and greater competition for new work led to broadly unchanged output charges. Meanwhile, firms expressed the lowest degree of confidence since mid-2016, with service providers more uncertain with regards to output growth over the coming year. Nonetheless, firms continued to increase workforce numbers at a moderate pace despite unchanged levels of outstanding business.

The seasonally adjusted final IHS Markit U.S. Services Business Activity Index registered 50.9 in May, down from 53.0 in April. The latest headline figure was the lowest since the current sequence of expansion began in February 2016, and signalled only a marginal upturn in business activity. Where a rise in output was reported, panellists linked this to a further increase in new business. Some firms, however, stated that greater competition and softer demand conditions had, in part, driven the slowdown.

At the same time, new orders received by service providers increased at only a marginal rate in May. The rise was the softest since March 2016 as firms commonly stated that less robust demand conditions weighed on new business growth. Meanwhile, new export orders were broadly unchanged during May, with the respective seasonally adjusted index posting fractionally above the 50.0 no change mark.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Subsequently, service sector firms registered a lower degree of optimism towards output over the coming 12 months. Business confidence was at its lowest level since June 2016 as service providers highlighted concerns surrounding softer demand conditions and uncertainty around ongoing global trade tensions. The level of positive sentiment was well below the series trend and muted overall.

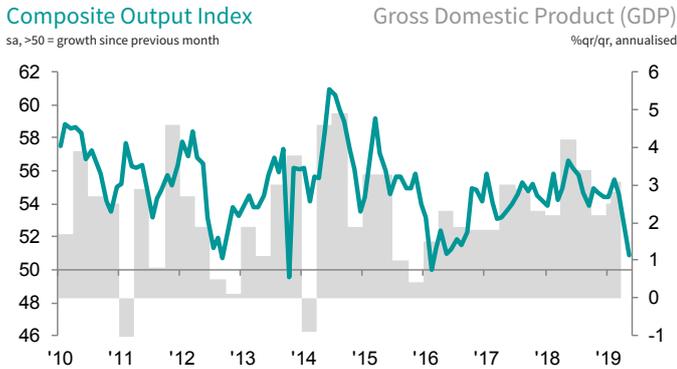
Less robust client demand put pressure on firms to remain competitive as companies left output charges broadly unchanged in May. The respective seasonally adjusted index dipped below to crucial 50.0 neutral mark for the first time since February 2016, as some companies sought to retain clients through price discounting.

Input prices increased at a softer and only marginal pace in May. The rise in cost burdens was the slowest since September 2016, with firms stating that any increases in purchase prices and wage costs were only slight overall.

Finally, pressure on capacity at service providers was subdued in May as backlogs of work remained the same as those seen in April. Nevertheless, a sustained increase in new work drove firms to employ greater workforce numbers. The rise in staffing levels was stronger than that seen in April and moderate overall.

## IHS MARKIT US COMPOSITE PMI™

# Output growth eases to three-year low



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 US Composite PMI Output Index is a weighted average of the US Manufacturing PMI Output Index and the US Services Business Activity Index. The Composite PMI Output Index registered 50.9 in May, down from 53.0 in April. The slowdown in private sector growth was driven by a softer service sector output expansion. The overall rise in business activity was the slowest since May 2016 and only marginal overall.

Similarly, the upturn in new business across the service sector eased for the fourth successive month to a marginal rate. Alongside a contraction in manufacturing new orders, less robust demand in the service sector led to the slowest overall expansion since March 2016. Foreign demand was lacklustre, with manufacturers registering a fall in new export orders, and service providers signalling broadly unchanged new business from abroad.

Manufacturing and service sector employment growth was moderate overall, with the rate of job creation accelerating in the latter. At the same time, backlogs of work were unchanged across the private sector.

On the price front, input price inflation eased further in May and was subdued in the context of the series history. As such, manufacturers raised their factory gate charges only slightly, and service providers noted broadly unchanged charges.

Finally, business confidence dipped to its lowest since June 2016 amid concerns about global trade tensions and less robust demand conditions.

## COMMENT

Commenting on the PMI data, Chris Williamson, Chief Business Economist at IHS Markit said:

*"The final PMI data for May add to worrying signs about the health of the US economy. With the exception of February 2016, business reported the weakest expansion for five and a half years as a trade-led slowdown continued to widen from manufacturing to services.*

*"Inflows of new business showed the second-smallest rise seen this side of the global financial crisis as the steepest fall in demand for manufactured goods since 2009 was accompanied by a further marked slowdown in orders for services.*

*"The survey data indicate a deterioration of annualised GDP growth to just 1.2% in May, down from 1.9% in April, putting the second quarter on course for a 1.5% rise.*

*"Employment growth has come off the boil in line with weaker than expected sales and gloomier prospects for the year ahead, albeit still showing some resilience. The survey data are running at a level broadly consistent with around 150,000 jobs being added in May.*

*"The slowdown has also seen inflationary pressures fade rapidly. Despite upward pressure on prices from tariffs, the rate of increase of average prices charged for goods and services barely rose in May, in marked contrast to the strong rises seen earlier in the year, as increasing numbers of companies competed on price amid weak demand.*

*"As with manufacturing, the biggest change in recent months has been a sharp deterioration in growth of orders and output at larger companies, linked in part to worsening export trends, trade war worries and rising geopolitical uncertainty."*

## CONTACT

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### 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.

May 2019 data were collected 13-28 May 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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