US service providers registered a steep upturn in business activity during October, according to the latest PMI™ data. The rise in output was the quickest for three months and was supported by a stronger expansion in new business. In line with greater new order inflows, firms signalled the fastest increase in backlogs of work since data collection began in October 2009, despite a faster pace of job creation. Nonetheless, concerns regarding labor shortages and unstable supply chains led business confidence to drop to an eight-month low.

Meanwhile, the rate of cost inflation eased to an eight-month low, despite being quicker than any pace of increase seen before March 2021. In response to a further rise in costs, firms raised their selling prices at the fastest rate on record.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 58.7 in October, up from 54.9 in September and above the earlier released ‘flash’ estimate of 58.2. The latest expansion was sharp overall and the quickest since July. The upturn was faster than the series average, with firms linking the increase to greater client demand and a further rise in new business.

October data signalled a strong rise in new orders at service providers, with the pace of growth quickening to a three-month high. Companies stated that demand from new and existing customers helped boost new sales. At the same time, some firms noted that greater confidence at clients alongside the return to office for some customers supported the upturn.

Conversely, new business from abroad fell for the third successive month at the start of the fourth quarter. Demand was reportedly stymied by pandemic uncertainty in key export markets. The decrease was modest overall and broadly in line with the pace seen in September.

In line with greater new order inflows and burgeoning pressure on capacity, firms registered an unprecedented rise in backlogs of work during October. Labor shortages reportedly exacerbated the strain on business capacity.

In response to a record rate of accumulation in outstanding business, firms expanded their workforce numbers in October. The rate of job creation was solid overall and the fastest since June, despite some companies continuing to note challenges finding suitable candidates for current vacancies.

Service providers recorded another marked uptick in cost burdens. The rate of inflation eased but was faster than any seen before March 2021. Greater input prices were attributed to higher fuel, wage, transportation and material costs.

Subsequently, firms sought to pass on higher costs to clients through a further sharp increase in selling prices. The latest rise in output charges was the steepest since data collection began 12 years ago.

Finally, the level of optimism slipped to the lowest since February, as service providers reported ongoing concerns surrounding inflation and material shortages.
The IHS Markit US Composite PMI Output Index* posted 57.6 in October, up from 55.0 in September to signal the fastest rise in private sector output since July. Although manufacturing production continued to be constrained by supply issues, the overall expansion was supported by a sharper service sector upturn.

Contributing to the overall expansion was a faster increase in new business. The rise was supported by sharp upticks in new orders at services providers and manufacturers. Foreign client demand fared less well, however, as goods producers registered only a fractional expansion and service sector firms saw a further contraction.

Meanwhile, backlogs of work continued to expand sharply as new orders rose and firms struggled to fill current vacancies. Employment increased solidly despite ongoing concerns regarding labor shortages.

The rate of cost inflation slowed to a six-month low in October, but remained historically elevated amid supply shortages. Firms passed costs through to clients, with private sector selling prices rising at the sharpest rate on record.

"The final PMI data add to indications that the US economy has picked up speed again in the fourth quarter. After the Delta variant caused growth to slow in the third quarter, the easing of virus case numbers has been followed by a strong revival of economic activity, notably in the service sector, which looks set to be the driving force of the economy as we head towards the end of the year.

"While the service sector is seeing a waning impact from the pandemic, it’s a different story in manufacturing, where the supply crisis continues to cause havoc and dampen production growth. Supply delays worsened in October, which has in turn fed through to a further intensification of inflationary pressures.

"Going forward, the big questions will revolve around the extent to which manufacturers can overcome their supply chain bottlenecks, which look set to worsen as we head towards the busy holiday period, and whether the service sector can sustain its current resilience as the rebound from the pandemic starts to fade and incomes are squeezed by higher prices."
For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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.

Survey methodology
Survey dates and history
Data were collected 12-29 October 2021.
Survey data were first collected October 2009.

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