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

Business activity expands at fastest pace since April 2015

Key findings

Stronger demand conditions drive faster upturn in output

Business expectations show record jump to highest since April 2018

Cost pressures and hiring ease

Data were collected 12-27 October 2020.

October PMI™ data signalled a strong expansion in business activity across the U.S. service sector. The quicker rate of growth was largely linked to more robust demand conditions, despite a slower upturn in new export business. Firms continued to work through backlogs accumulated during lockdown, but pressure on capacity eased and employment consequently rose at the softest pace for three months. Optimism about business levels in one year’s time improved to the strongest since April 2018 principally amid hopes of an end to the coronavirus disease 2019 (COVID-19) crisis and additional stimulus during the pandemic. Meanwhile, inflationary pressures softened, with some noting greater efforts to boost sales through discounts and offers.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 56.9 in October, up from 54.6 in September and higher than the earlier released ‘flash’ estimate of 56.0. The improvement indicated that the rate of growth regained momentum at the start of the fourth quarter to the sharpest since April 2015. Greater output was often attributed to stronger demand conditions and a further uptick in new business.

October data indicated a steep upturn in new business at service providers, with the rate of expansion accelerating for the second month running. Some companies noted that looser coronavirus restrictions had encouraged sales. The pace of growth was the most marked since February 2019. That said, new export orders rose at a softer pace in October, as reimposed lockdown measures in key external markets dampened demand.

At the same time, cost burdens faced by service providers increased at a solid rate. Higher input prices were reportedly due to greater transportation and logistics costs, with many noting that drivers were in short supply. The rate of input price inflation was the softest since June, however.

Service sector firms partially passed on higher costs to clients through greater selling prices in October. The pace of charge inflation was solid overall but eased as many companies stated that efforts to drive sales had led to the offering of discounts and promotions.

Service sector firms also reported stronger optimism regarding a rise in activity over the coming year. The record survey improvement in optimism took confidence to the highest since April 2018, which reportedly stemmed from hopes of notably looser virus-related restrictions in one year’s time and additional stimulus.

Meanwhile, greater new order inflows encouraged companies to increase their workforce numbers in October. Employment growth nevertheless softened to a three-month low amid some reports of fewer requirements due to excess capacity.

In line with easing pressure on capacity, backlogs rose at only a marginal pace in October. The rate of accumulation was the slowest in the current four-month sequence of growth which began after lockdown restrictions eased in July.
October data signalled an increasingly robust expansion in business activity amid faster upturns among manufacturers and service providers. The IHS Markit Composite PMI Output Index* posted 56.3 at the start of the fourth quarter, up from 54.3 in September and a 29-month high. The upturn was driven by the strongest increase in service sector business activity since April 2015 alongside a more modest acceleration of manufacturing growth to an 11-month high.

Contributing to output growth was the fastest rise in new business since February 2019. Manufacturers and service providers both registered quicker expansions. The improvement was driven by domestic demand, as new export orders almost stalled. Goods producers even recorded a renewed fall in export sales.

Amid emerging reports of spare capacity, private sector firms indicated a slower rise in employment in October. Job gains were the slowest since July thanks to softer rates of job creation in both manufacturing and services.

Companies were more upbeat regarding the outlook for output over the coming 12 months, with optimism surging by a survey record extent in October.

Meanwhile, rates of input price and output charges inflation eased in October. The rise in selling prices was solid overall but firms only partially passed on higher costs to clients.

*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:

“Growth of business activity accelerated markedly in October, indicating that the underlying health of the US economy continued to recover at the start of the fourth quarter. While fourth quarter GDP will invariably fail to match the strong rebound seen in the third quarter, the economy looks to be continuing to grow at an above-trend rate.

“Encouragingly, future business optimism showed a record surge, pulling prospects for the year ahead up to the highest for more than two years. hopes of a brighter outlook were pinned on a vaccine ending the COVID-19 pandemic over the coming year and additional stimulus supporting the economy in the meantime.”
IHS Markit U.S. Services PMI™

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 12–27 October 2020.
Data collection began in October 2009.

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