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IHS Markit US Services PMI™

Including IHS Markit US Composite PMI™

Demand conditions strengthen in December, but labor shortages exacerbate cost pressures

Key findings

Output growth softens, but new order expansion regains momentum

Labor shortages stymie pace of job creation

Rate of cost inflation accelerates to series record high

Data were collected 06-22 December 2021.

US services providers registered another steep expansion in business activity at the end of 2021, according to the latest PMI™ data. The upturn eased slightly to the slowest for three months, but was supported by a sharper increase in new business. The rise in new orders was the fastest for five months, as demand conditions strengthened. Although firms sought to expand workforce numbers to tackle strong growth in backlogs of work, labor shortages and challenges retaining staff hampered progress, with employment rising only marginally. Nevertheless, hopes of further upticks in demand drove business confidence to the highest since November 2020.

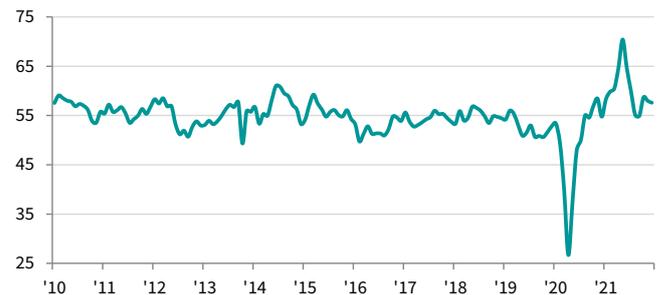
Meanwhile, soaring wage bills and greater supplier prices led to the steepest increase in cost burdens on record. Charges also rose markedly, albeit at the softest rate for three months amid reports of competition for customers.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 57.6 in December, down from 58.0 in November, but broadly in line with the earlier released 'flash' estimate of 57.5. The latest data signalled a sharp upturn in service sector business activity, despite the pace of growth easing to a three-month low. The expansion was driven by stronger client demand, according to survey respondents.

Contributing to the sustained upturn in output was a faster rise in new business during December. Service providers recorded the sharpest increase in client demand since July, amid new customer acquisitions and contract gains.

At the same time, new export orders grew at a solid pace. Although the rate of expansion in foreign client demand softened from November, it was stronger than the 2021 average.

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



Source: IHS Markit.

Greater new business and increased backlogs of work led firms to expand their staffing numbers during December. That said, labor shortages and difficulties retaining workers hampered the rate of job creation, which was only marginal overall. Overall, the pace of employment growth eased to the slowest for three months.

Sustained pressure on capacity led to another strong rise in backlogs of work at the end of 2021, albeit one that was the slowest since September. Anecdotal evidence suggested the increase was due to labor and input shortages, alongside a further sharp uptick in client demand.

Meanwhile, service providers recorded the steepest increase in input prices on record (since October 2009) in December. The series-record rise in cost burdens was commonly attributed to greater transportation and distribution fees. That said, many firms stated that upward pressure on expenses from higher wage bills was a key factor, as companies sought to retain current staff and encourage new workers.

Despite a sharper uptick in costs, service providers signalled a softer rise in output prices. The rate of charge inflation was, however, little-changed from October's series high. Where firms sought to ease hikes in charges, this was linked to competition.

Buoyed by stronger client demand and hopes of an end to pandemic and supply-chain uncertainty, the degree of optimism at service providers regarding the year-ahead outlook was the highest since November 2020. Some firms were also more upbeat on hopes of improving labor market conditions.

IHS Markit US Composite PMI®

Buoyant services output growth supports sharp upturn in private sector activity

The IHS Markit US Composite PMI Output Index* posted 57.0 in December, down slightly from 57.2 in November. The latest data signalled a steep increase in private sector business activity, albeit largely driven by the service sector as manufacturing production rose at a relatively muted pace.

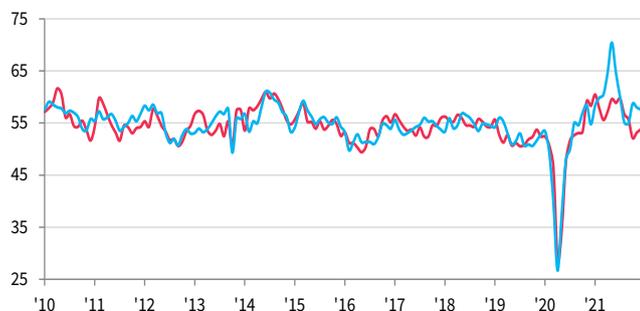
At the same time, new business rose sharply amid a pick-up in service sector client demand. Overall new order growth was the quickest for five months. New export orders, meanwhile, increased for the second month running amid greater client demand at manufacturers and service providers.

Input shortages, transportation delays and upticks in labor costs drove the rate of private sector input price inflation to a fresh series high in December. Although manufacturing firms recorded a moderation in cost pressures, input prices rose faster at service providers. Overall selling prices also rose steeply, albeit at the slowest pace for three months.

Challenges hiring suitable workers and retaining current staff blighted the private sector again, as employment growth slowed to only a marginal pace. Material and labor shortages exacerbated pressure on capacity as backlogs of work rose strongly.

Services Business Activity Index Manufacturing Output Index

sa, >50 = growth since previous month

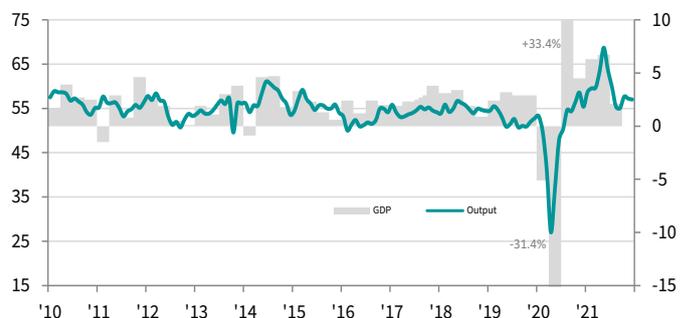


Source: IHS Markit.

US Composite PMI Output Index

sa, >50 = growth since previous month

GDP
% Q/Q Annualized



Sources: IHS Markit, Bureau of Economic Analyses.

Comment

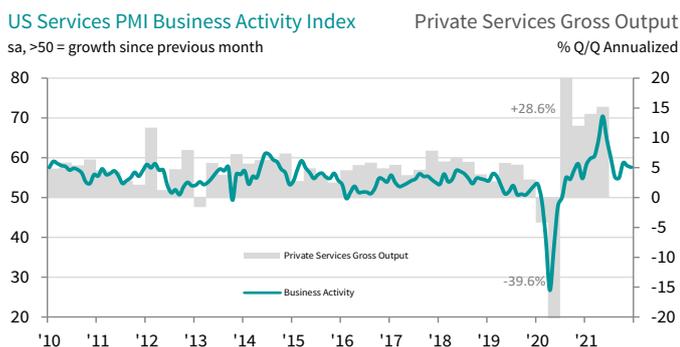
Commenting on the latest survey results, Sián Jones, Senior Economist at IHS Markit, said:

"Service sector business activity growth remained strong in December, supporting indications of a solid uptick in economic growth at the end of 2021. Although the expansion in output softened slightly, the flow of new orders picked up, with buoyant client demand rising at the fastest pace for five months.

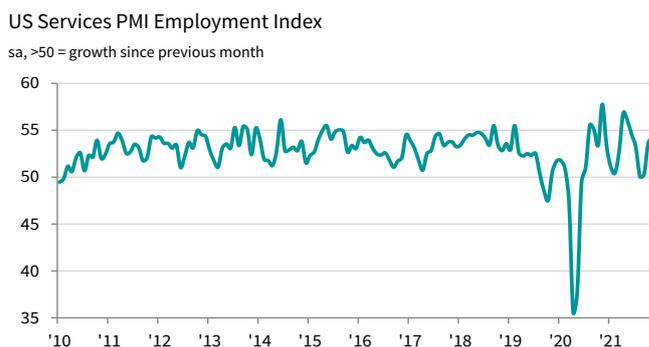
"The service sector continued to aid overall growth, as the manufacturing sector saw output hampered again by material and labor shortages. The impact of the latter, however, had a burgeoning effect on service providers as job creation rose at only a marginal pace amid challenges keeping hold of staff and enticing new starters.

"Subsequently, soaring wage bills and increased transportation fees drove the rate of cost inflation up to a fresh series high.

"Business confidence strengthened at the end of the year to the highest since November 2020, as firms were hopeful of more favorable labor market and supply-chain conditions going into 2022. The swift spread of the Omicron variant does lace new downside risks into the economic outlook heading into 2022, however. Any additional headwinds or disruption faced by firms are likely to temper sentiment."



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 06-22 December 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).

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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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