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IHS Markit U.S. Services PMI™

Including IHS Markit U.S. Composite PMI™

Strongest expansion in business activity since March 2019

Key findings

Output growth quickens amid renewed upturn in new business

Employment rises at the fastest pace since June 2014 as backlogs of work show largest rise for over a decade

Input cost pressures remain steep

August data were collected 12-25 August 2020

August PMI™ data signalled a strong expansion in business activity across the U.S. service sector, as output rose at the sharpest rate for nearly one and a half years. The upturn was driven by greater client demand, as new orders grew at the quickest pace for over a year. As a result, firms increased their workforce numbers sharply to cope with greater pressure on capacity. Although business expectations ticked down slightly, firms remained optimistic on balance, with sentiment regarding the year ahead at its second-highest since April 2019.

Meanwhile, input cost inflation eased slightly, though nonetheless remained sharp. Increased supplier prices, including for PPE, were partially passed on to clients through a second month of marked growth of charges.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 55.0 in August, up notably from 50.0 in July and slightly higher than the earlier 'flash' estimate of 54.8. The latest expansion was strong overall and the quickest since March 2019. Firms often stated that the upturn in output was due to greater client demand and the further reopening of businesses.

Contributing to the rise in business activity was a solid increase in new sales in August. Growth in new business was commonly attributed to rising client demand and increased marketing activity. The rate of expansion was the fastest since July 2019, with new export orders also rising, growing at the fastest pace on record (since September 2014).

The faster growth of new business helped drive a second successive monthly rise in workforce numbers across the service sector in August, as firms sought to relieve pressure on capacity.

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



Sources: IHS Markit.

The sharp increase in staffing numbers was the quickest since June 2014, and well above the series average.

Greater pressure on capacity stemmed from a further accumulation of backlogs of work. The rate of expansion accelerated to the fastest since data collection began in October 2009, amid a quicker upturn in new business.

Meanwhile, cost burdens rose at a steep pace, despite the rate of inflation easing from that seen in July. Higher supplier prices and greater costs for equipment such as PPE drove input prices up. With the exception of July's recent high, the pace of increase was the fastest since October 2018.

Firms commonly stated that higher cost burdens were partially passed on to clients through greater output charges in August, with the rate of output price inflation the second-sharpest for almost two years. The strong pace of inflation eased slightly, however, with some companies continuing to note competitive pressures and efforts to boost sales.

Finally, service providers registered a solid degree of confidence with regards to the outlook for output over the coming year in August. Optimism was often linked to hopes of a further pick up in client demand and a recovery in economic performance. Despite softening from that seen in July, the level of positive sentiment was the second-highest since April 2019.

IHS Markit U.S. Composite PMI®

Strongest expansion of private sector output since March 2019

Private sector business activity rose at the fastest pace for nearly a year-and-a-half in August amid sharper upturns at both manufacturers and service providers.

The IHS Markit Composite PMI Output Index* posted 54.6 in August, up from 50.3 at the start of the third quarter, to signal a strong upturn in business activity.

Contributing to the expansion was the first rise in new business since February. Firms indicated a solid increase in client demand, as new export orders also returned to growth territory.

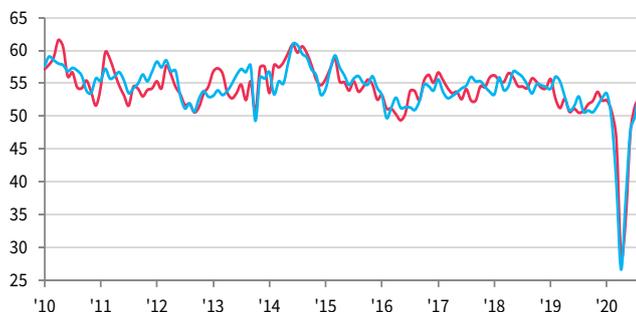
Greater workforce numbers at both manufacturing and service sector firms led to the strongest rise in employment since February 2019 across the private sector. Extra staff were brought in to ease pressure on capacity, as backlogs of work rose solidly during the month, registering the largest increase for almost six years.

Sentiment about output over the coming year meanwhile edged down slightly from July's 15-month high. Uncertainty surrounding the pandemic's future impact on the economy continued to weigh on confidence at manufacturers, contrasting with improved optimism among service providers.

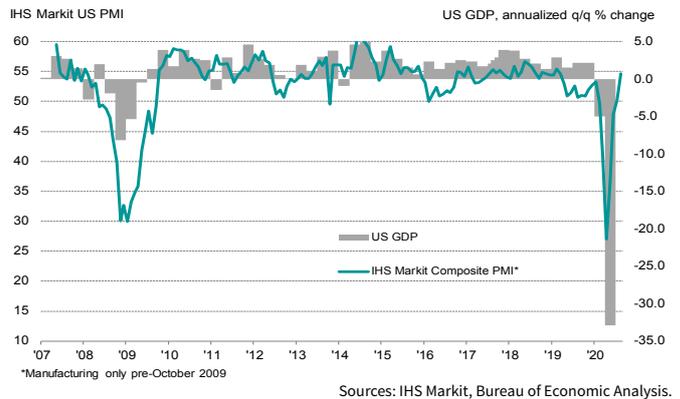
Input costs continued to increase in August, rising at the fastest pace since October 2018. The rate of output charge inflation softened, however, despite a faster increase at manufacturing firms.

*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.

Manufacturing Output Index
Services Business Activity Index
sa, >50 = growth since previous month



Source: IHS Markit.



Comment

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

“Surging inflows of new business helped propel service sector activity higher in August, with the sector growing at its fastest rate for almost one and a half years. Firms were often left struggling to meet demand and, despite taking on extra staff at a pace not seen for over six years, backlogs of uncompleted work accumulated at a rate exceeding anything recorded since 2009. The increase in backlogs of work bodes well for robust output growth to persist into September.

“Combined with the stronger picture emerging from manufacturing in August, the improved performance of the vast service sector adds to signs that the third quarter will see an impressive rebound in the economy from the collapse seen in the second quarter.

“However, the survey also highlights how the rebound is very uneven and the recovery path remains highly uncertain.

“August’s growth was driven by financial and business services as well as tech firms, but consumer-facing sectors such as travel, tourism and recreation remained firmly in decline due to the need for ongoing social distancing.

“Companies across the board also remain concerned about resurgent virus infections and the durability of demand in the coming months after the initial rebound potentially fades, with uncertainty over the Presidential election adding further risks to the outlook for many companies.”

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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

August data were collected 12-25 August 2020.

Data collection began in October 2009.

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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.