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IHS Markit U.S. Services PMI™

Including IHS Markit U.S. Composite PMI™

Fastest contraction in business activity since October 2013

Key findings

Marginal fall in output as demand conditions weaken

Slower rise in employment amid reduced pressure on capacity

Business confidence strengthens, but remains relatively muted

February data signalled the first contraction of U.S. service sector business activity for four years. The decrease in output stemmed from only a fractional rise in client demand and a further contraction in new business from abroad as customers held back from placing orders amid global economic uncertainty and the coronavirus outbreak. As a result, business confidence remained historically subdued and employment growth slipped to the weakest since last November.

Efforts to attract and retain clients and a softer pace of input price inflation meanwhile led to a slower increase in output charges. The rate of selling price inflation eased to a three-month low.

The seasonally adjusted final IHS Markit US Services Business Activity Index registered 49.4 in February, unchanged from the 'flash' figure, but notably down from 53.4 seen at the start of the year. The contraction in output was only marginal overall, but was nonetheless the fastest in over six years. Firms attributed the decline to less robust domestic demand conditions and a further fall in export sales.

In line with a slower expansion in client demand, new business rose at only a fractional rate that was the softest in the current four month sequence of growth.

Reflecting the international impact of increased uncertainty was a further drop in foreign client demand, which led to the largest drop in new business from abroad since last November.

Subsequently, service providers expanded their workforce numbers at the slowest rate for three months. The marginal rate of job creation was below the series trend, with growth weighed

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



Sources: IHS Markit.

down by subdued demand and reduced pressure on capacity following a contraction in backlogs of work.

Outstanding business decreased fractionally in February, representing the first fall since last October, as firms reported sufficient capacity to fulfil existing business requirements.

Meanwhile, service providers were slightly more upbeat regarding the outlook for output over the coming 12 months in February. Although still well below the series average (data collection for the series began in July 2012), the degree of optimism picked up to a nine-month high. Greater confidence was supported by hopes of an uptick in client demand and the expansion of available service lines.

Finally, inflationary pressures remained historically subdued midway through the first quarter as rates of input price and output charge inflation softened. The slower rise in selling prices was linked to some reports of challenging demand conditions and efforts to remain competitive and a softer increase in cost burdens. Furthermore, the rate of input price inflation was well below the series trend and the slowest for three months.

IHS Markit U.S. Composite PMI®

Composite business activity declines for the first time since October 2013

Private sector output was weighed on by a contraction in business activity at service providers and a slower manufacturing expansion.

The IHS Markit Composite PMI Output Index* registered 49.6 in February, notably down from 53.3 posted at the start of the year. The decrease in overall output was the first for over six years.

New orders rose only fractionally, as both manufacturers and service providers noted subdued client demand. The expansion of new business was the slowest since data collection began in October 2009. Domestic demand supported the upturn, helping offset a further drop in new export orders.

Despite slower new order growth, firms continued to expand their workforce numbers, albeit at only a marginal pace. Meanwhile, backlogs of work fell amid reduced pressure on capacity.

Although relatively muted and well below levels seen early last year, business confidence picked up in February to reach a nine-month high based on hopes of an uptick in demand.

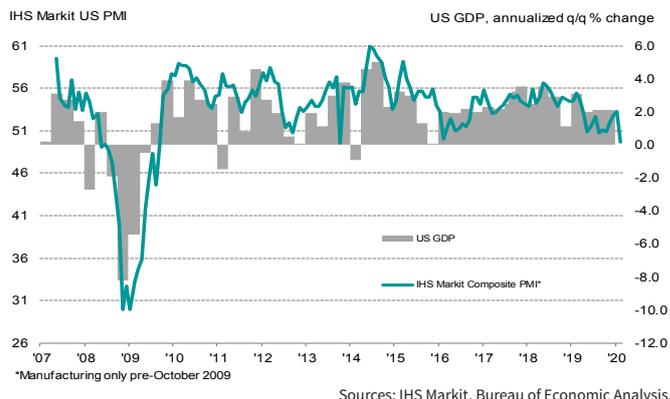
Finally, inflationary pressures across the private sector were subdued midway through the first quarter, as rates of increase in input prices and output charges eased to three-month lows.

*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.



Sources: IHS Markit, Bureau of Economic Analysis.

Comment

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

"The US service sector took a knock from the coronavirus outbreak and growing uncertainty about the economic and political outlooks in February. The fall in the headline index measuring business activity levels was the second-largest seen since the global financial crisis over a decade ago, exceeded only by the brief slump in activity during the 2013 government shutdown.

"Combined with a weak manufacturing survey in February, the data are consistent with annualised GDP growth slipping from around 2% at the start of the year to just 0.7% midway through the first quarter.

"Business sectors such as travel and tourism are reporting weakened activity due to the virus outbreak, most notably in terms of foreign visitors and overseas sales. However, other sectors such as financial services and business services are reporting virus-related hits to demand, suggesting a more broad-based weakening of demand across the economy, exacerbating the supply-shock that is constraining manufacturing.

"Companies have meanwhile grown increasingly concerned about client spending and investment being curbed ahead of the presidential election. Political and economic uncertainty, the coronavirus outbreak and financial market turmoil all risk building into a cocktail of risk aversion that has severely heightened downside risks to the economy in coming months. Much will depend of course on the speed with which the virus can be contained and how quickly business can return to normal."

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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

February data were collected 12-25 February 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.