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IHS Markit U.S. Services PMI™

Including IHS Markit U.S. Composite PMI™

Business activity growth strengthens in November

Key findings

Faster, albeit only marginal, rise in output

Renewed increase in new business

Optimism remains historically subdued

U.S. service sector firms signalled a quicker expansion in business activity in November. Although only marginal, the increase in output was supported by a renewed upturn in new orders. Foreign client demand remained lacklustre, however, with new business from abroad continuing to fall. Greater new order inflows and a subsequent rise in backlogs of work led to a return to growth in employment, albeit only fractional overall. That said, business confidence remained muted and close to historical lows.

Meanwhile, inflationary pressures were relatively subdued, with selling prices increasing only fractionally.

The seasonally adjusted final IHS Markit US Services Business Activity Index registered 51.6 in November, up from 50.6 in October and in line with the 'flash' figure, indicating a further upturn in output across the U.S. service sector. The expansion was only marginal and well below the long-run series trend. Nonetheless, the rate of growth accelerated to a four-month high which companies attributed to an uptick in client demand.

Accordingly, new business rebounded from the slight contraction seen in October and expanded at the fastest pace since August. Although relatively subdued, the marginal upturn was linked to the acquisition of new clients and stronger domestic demand.

In contrast, new business from abroad contracted for the fourth month running midway through the final quarter of 2019. The rate of decline was marginal and the slowest for three months, but compared unfavourably with the series trend.

At the same time, firms expressed a lower level of positive sentiment towards the outlook for output over the coming 12

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



Sources: IHS Markit.

months in November. Ongoing global economic uncertainty weighed on expectations, with the majority of respondents forecasting no change in activity over the next year.

Meanwhile, service providers marked the first increase in workforce numbers since August. Although only fractional, employment growth was commonly linked to greater workloads, with the rate of job creation reaching the fastest for four months.

Renewed strain on capacity was also reflected in a rise in the level of outstanding business at service sector firms. The accumulation of backlogs of work in November signalled a sharp turnaround from September's solid fall in work-in-hand.

On the price front, cost burdens increased for the second month running in November. The rate of inflation picked up from that seen at the start of the fourth quarter, but remained only marginal overall.

Service providers also registered a quicker rate of prices charged inflation. That said, the pace of increase was only fractional following October's broad stagnation in selling prices. Where a rise was reported, however, companies attributed this to the partial pass-through of higher costs to clients.

IHS Markit U.S. Composite PMI®

Private sector output expansion accelerates in November

Growth in private sector business activity quickens following stronger upturns in the manufacturing and service sectors.

The IHS Markit Composite PMI Output Index* registered 52.0 in November, up from 50.9 in October, to signal a modest increase in business activity across the U.S. private sector. The rate of growth was the fastest for four months, despite remaining below the long-run series trend.

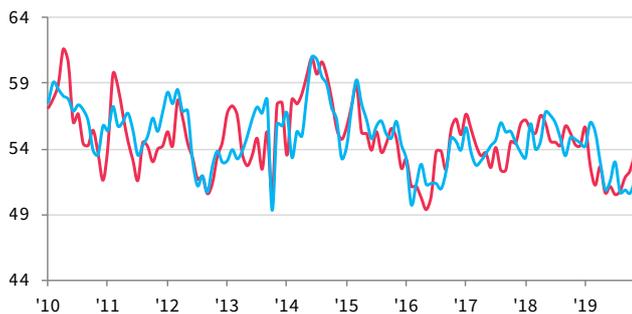
Similarly, new business received by both manufacturers and service providers rose at a quicker rate midway through the fourth quarter. Goods producers recorded the sharpest expansion since January, with service sector firms registering only a marginal upturn in client demand.

Subsequently, private sector companies indicated a renewed increase in employment amid greater new business inflows and a rise in backlogs of work.

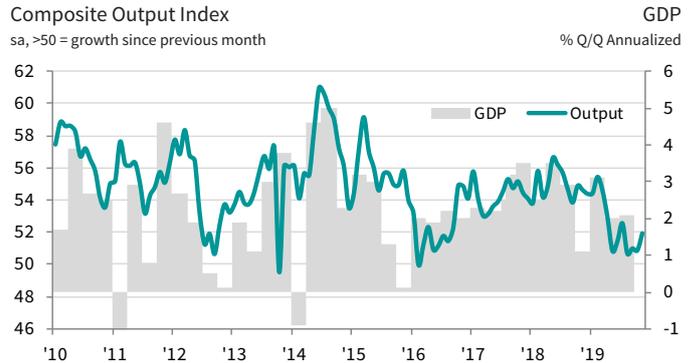
Business confidence remained subdued in November, with manufacturers and service providers noting less upbeat output expectations for the year ahead.

*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:

“With both services and manufacturing reporting stronger rates of expansion, the November PMI surveys indicate the fastest pace of economic growth for four months. The improvement is coming from a low base, however, and even at these higher levels the survey is merely indicative of annualised GDP growth in the region of 1.5%.

“Similarly, while reviving order book growth has encouraging more companies to take on extra staff after two months of net job losses being reported, the survey’s employment index continued to run at a level consistent with monthly jobs growth of only around 100,000.

“Weakened business activity and jobs growth compared to earlier in the year also led to widespread caution with respect to pushing up selling prices in the face of an uncertain outlook. Business expectations for the year ahead continue to run at one of the lowest levels recorded by the survey since 2012 with firms worried about trade wars, slowing economic growth at home and abroad, as well as the possibility of next year’s election cycle causing customers to postpone spending decisions.”

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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

November data were collected 12-26 November 2019.

Data collection began in October 2009.

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