Subdued growth of business activity continues in June

**KEY FINDINGS**

- Activity growth edges up from May’s 39-month low
- New business growth quickens, but remains historically subdued
- Business confidence dips to three-year low

June survey data indicated a marginal increase in business activity across the U.S service sector. Although the upturn was among the weakest over the last three years, the rate of growth quickened from May's recent low. The faster expansion was supported by an acceleration in the rate of increase in new business. The slight pick up in client demand also led to a renewed rise in backlogs of work, with employment increasing moderately to accommodate greater pressure on capacity. Uncertainty regarding future new order growth dampened business confidence further as expectations hit a three-year low. Inflationary pressures meanwhile quickened slightly, but remained muted overall.

The seasonally adjusted final IHS Markit U.S. Services Business Activity Index registered 51.5 in June, up slightly from 50.9 in May. The latest index figure signalled a stronger expansion than the earlier ‘flash’ reading (50.7). That said, June data indicated only a marginal increase in output that was the second-slowest since August 2016 (behind May). Where a rise was reported, service providers linked this to a faster upturn in new business.

Domestic and external demand conditions improved slightly in June, with both new business and new export orders from abroad rising at quicker paces. Although the upturn in foreign demand was broadly in line with the series trend, total new orders increased at the second-slowest rate since April 2017. Some firms noted that greater advertising and marketing had improved new business intakes, but other continued to lament soft underlying demand conditions.

Subsequently, service providers registered a lower degree of business confidence in June, with the level of positive sentiment dropping to the lowest since June 2016. Optimism was weighed down by greater competition and concerns surrounding the strength of future new order growth.

A modest expansion in new business led to a renewed rise in the level of outstanding business in June, following no change in May. The rate of backlog accumulation was only marginal but accelerated to a three-month high. Despite soft underlying demand conditions across the service sector in June, firms continued to expand their workforce numbers amid a tight labour market and difficulties finding skilled staff. The increase in employment was broadly in line with the average for 2019 to date.

Meanwhile, although input prices rose at a quicker pace, the rate of inflation remained historically subdued. Higher prices faced by service providers were linked to greater wage and fuel costs. Following broadly unchanged output charges in May, selling prices rose marginally in June and at the fastest rate for three months. Firms stated that higher charges were due to the pass through of increased cost burdens to clients.
Composite output growth picks up amid faster new business expansion

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 US Composite PMI Output Index is a weighted average of the US Manufacturing PMI Output Index and the US Services Business Activity Index. The Composite PMI Output Index registered 51.5 in June, up from 50.9 in May. The expansion remained only marginal overall, despite quicker business activity growth across both the manufacturing and service sectors. Moreover, the rate of increase was the second-slowest since August 2016 (behind May).

The upturn in new business quickened in June, as manufacturers registered a renewed rise in client demand. Service providers noted a moderate and faster increase. External demand conditions also picked up, with private sector firms recording a return to growth in new export orders.

Meanwhile, pressure on capacity increased as backlogs of work rose at the fastest pace for three months. The upturn drove another marginal rise in employment.

Inflationary pressures picked up in June, but remained historically subdued. Input prices rose at the fastest rate of three months, largely linked by manufacturers to trade tariffs. Output charges increased at a marginal pace, following broadly unchanged prices in May.

Business confidence dipped to a series low in June (since July 2012), despite a slight increase in optimism among manufacturers. The subdued level of positive sentiment was attributed to uncertainty surrounding future new order growth and global trade tensions.

COMMENT

Commenting on the PMI data, Chris Williamson, Chief Business Economist at IHS Markit said:

"An improvement in service sector growth provides little cause for cheer, as the survey data still indicate a sharp slowing in the pace of economic growth in the second quarter. The PMI data for manufacturing and services collectively point to GDP expanding at an annualised rate of 1.5%.

"A major change since the first quarter has been a broadening-out of the slowdown beyond manufacturing, with the service sector growth now also reporting much weaker business activity and orders trends than earlier in the year.

"Hiring was hit as firms scaled back their expansion plans in the face of weaker than expected order inflows and gloomier prospects for the year ahead. Jobs growth was the weakest for over two years and future expectations across both services and manufacturing has slipped to the lowest seen since comparable data were first available in 2012.

"Trade wars and geopolitical concerns topped the list of companies’ worries about the year ahead, alongside forecasts of slower economic growth. Progress in US-China trade talks could therefore be key to helping lift confidence in coming months."

Sources: IHS Markit, Bureau of Economic Analysis.