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## IHS Markit U.S. Services PMI™

Including IHS Markit U.S. Composite PMI™

# Business activity growth accelerates to five-month high in December

### Key findings

Output and new order expansions quicken, but remain only modest

Fastest rise in employment since July

Inflationary pressures pick up

U.S. service sector firms indicated a moderate expansion in business activity at the end of 2019, with growth driven by a stronger rise in new orders. Foreign client demand also picked up, as new export orders increased for the first time since July. Subsequently, the rate of job creation ticked up to a five-month high despite only fractional pressure on capacity. Business confidence, however, remained well below the series average.

Meanwhile, service providers were able to increase their selling prices at a faster pace amid a quicker, albeit only modest, rise in cost burdens.

The seasonally adjusted final IHS Markit US Services Business Activity Index registered 52.8 in December, up from 51.6 in November, signalling a further rebound in output growth following a slump in activity during the summer. The moderate upturn accelerated to the fastest since July and was linked to more favourable demand conditions.

A second successive increase in new business drove the expansion in output, with stronger client demand leading to the fastest rise in new orders for five months. Although growth was relatively lacklustre overall, it signalled a turnaround from the slight contraction seen in October. Foreign client demand also improved, with service providers recording the first upturn in new business from abroad since July. The rate of expansion was fractional overall but was only slightly slower than the series trend.

As a result, service providers ramped up hiring efforts as employment rose for the second straight month and at the quickest rate since July. Although only modest overall, the

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



Sources: IHS Markit.

upturn in workforce numbers was commonly linked to greater business requirements following an uptick in new order growth.

Meanwhile, backlogs of work were broadly unchanged at the end of 2019, as firms signalled little strain on capacity. Although some noted that greater new business inflows had put pressure on operations, others stated that orders and projects were completed in a timely manner.

On the price front, cost burdens increased for the third month running and at a quicker rate. The rise in input prices was generally attributed to higher supplier and wage costs. The increase was the sharpest since July despite being only modest.

At the same time, service sector firms were able to increase their selling prices at a solid pace. The rate of output charge inflation outpaced the rise in input prices and was the fastest since February. Greater output prices were largely linked to efforts to pass higher costs on to clients.

Finally, business expectations for the year ahead improved in December. Where firms foresee an increase in activity over the next 12 months, they attributed this to hopes of further boosts to new sales. That said, the degree of confidence was well below the series trend and levels seen at the end of 2018, with a number of firms reporting uncertainty as to the stability of client demand.

## IHS Markit U.S. Composite PMI®

### Private sector output growth quickens to fastest since April

The overall rise in business activity across the U.S. private sector quickened in December, boosted by a stronger increase in service sector output.

The IHS Markit Composite PMI Output Index\* registered 52.7 in December, up from 52.0 in November, to signal a moderate expansion in private sector business activity. The upturn was the fastest since April.

Private sector new business grew at the strongest rate since July, with service providers recording a second successive and sharper rise in client demand. Similarly, firms indicated back-to-back expansions in new export orders, albeit both at fractional rates overall.

Employment also continued to rebound from the contractions seen in September and October, with both sectors registering a rise in staffing levels.

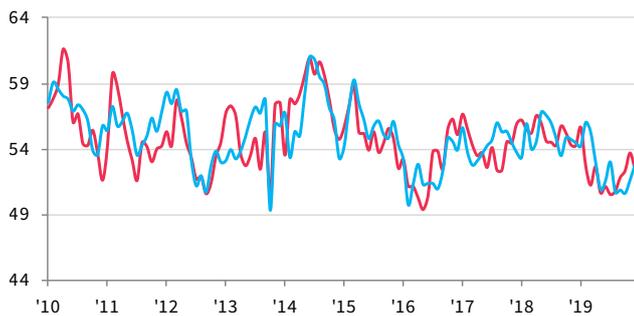
Meanwhile, rates of input and output price inflation quickened as private sector firms sought to pass higher costs on to clients and protect margins.

Finally, output expectations remained historically subdued as firms remained uncertain regarding future client demand.

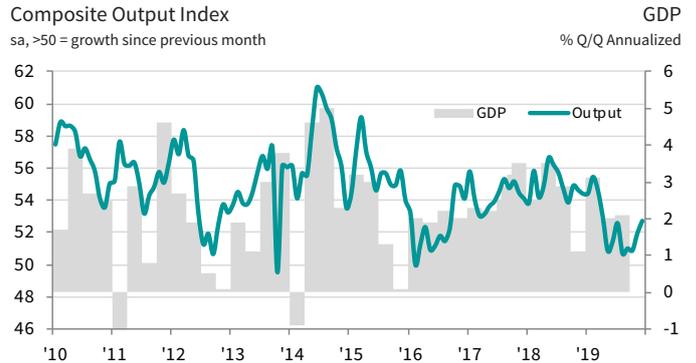
\*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The U.S. Composite Output Index is a weighted average of the U.S. Manufacturing Output Index and 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:

"Business activity in the vast service sector picked up pace at the end of last year as rising domestic demand and signs of reviving exports led to higher workloads. Combined with indications of manufacturing lifting out of its recent lull, the survey data suggest the overall pace of economic growth accelerated to its fastest since last April.

"However, while moving in the right direction, service sector growth remains well below that seen in the early months of 2019, and the overall survey results are indicative of GDP rising at a relatively modest annual rate of 1.8% in December.

"The missing ingredient compared to this time last year is optimism about the future, with business sentiment regarding prospects for the next twelve months running well below levels seen this time last year, and close to the lowest for at least seven years. Indeed, much of the recent improvement in demand has come from stronger sales to consumers, with business spending and investment remaining under pressure amid this anxiety about the economic and political outlook."

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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](mailto:economics@ihsmarkit.com).

### Survey dates and history

December data were collected 5-18 December 2019.

Data collection began in October 2009.

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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. To learn more go to [ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html).