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IHS Markit U.S. Services PMI™

Including IHS Markit U.S. Composite PMI™

Slowest rise in activity so far this year as demand recovery slows during August

Key findings

Output growth moderates amid slower upturn in new business

Staff shortages contribute to record rise in backlogs of work

Inflationary pressures pick up

Data were collected 12-31 August 2021.

August PMI™ data indicated a marked weakening in the rate of expansion of business activity across the U.S. service sector. Output increased at the slowest rate for eight months, as less robust demand conditions led to the softest rise in new business since August 2020 and supply constraints limited growth. Weak foreign client demand also weighed on the rise in total sales, as new export orders fell for the first time since February. Nevertheless, service providers experienced increased pressure on capacity, with backlogs of work rising at an unprecedented rate as firms struggled to source inputs and expand workforce numbers. Jobs growth was the slowest for 14 months.

Meanwhile, rates of input cost and output charge inflation quickened slightly as hikes in supplier and wage bills were partly passed on to clients.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 55.1 in August, down from 59.9 in July and broadly in line with the earlier released 'flash' estimate of 55.2. The latest data signalled a strong upturn in business activity across the U.S. service sector, albeit the slowest since December 2020. The rise in output was often linked to a sustained upturn in client demand and a further increase in new business.

August data signalled a solid rise in new orders at service providers, but the rate of growth eased to the slowest since August 2020. Although firms recorded a further uptick in customer spending, many suggested that client demand eased notably from the series record expansion in May.

Total sales were also weighed down by a drop in new export orders. Foreign client demand fell at the fastest pace in 2021 to date. Some companies stated that greater uncertainty in key

U.S. Services PMI Business Activity Index
sa, >50 = growth since previous month



Source: IHS Markit.

export markets, due in many cases to a resurgence in COVID-19, dampened demand.

At the same time, service providers registered broadly unchanged employment levels midway through the third quarter, with the marginal increase in jobs almost ending a sequence of job creation that extends back to July 2020. Although services firms commonly highlighted greater requirements for staff due to a further rise in new orders, companies noted significant issues retaining employees and finding suitable candidates for current vacancies.

Service sector firms registered unprecedented constraints on capacity in August. Backlogs of work rose markedly and at the fastest pace since data collection began in October 2009.

Meanwhile, cost burdens rose substantially during August. Higher input prices were often linked to hikes in supplier costs and wage bills amid labour and product shortages. The rate of input price inflation accelerated slightly from that seen in July and was faster than the series average.

Output charges rose markedly and at a fractionally quicker pace than in July. Companies commonly attributed the uptick in selling prices to the pass-through of costs to clients where possible.

Finally, business expectations improved in August, as service providers signalled a stronger degree of confidence regarding the outlook for output over the coming year. Optimism was linked to hopes of an end to pandemic uncertainty and a further boost to client demand.

IHS Markit U.S. Composite PMI®

Business activity growth eases to eight-month low in August

The IHS Markit U.S. Composite PMI Output Index* posted 55.4 in August, down from 59.9, to signal the slowest expansion in private sector output in 2021 to date. The rate of activity growth softened further from May's series high. The slower overall upturn stemmed from weaker expansions in the manufacturing and service sectors.

Contributing to the reduced rate of growth in output was a slower increase in new business during August. Growth in total sales was also hampered by a slower rate of expansion in new export orders. Although manufacturers continued to register an upturn in foreign client demand, service providers noted a renewed decline.

Inflationary pressures across the private sector remained elevated midway through the third quarter, as input costs rose substantially despite a cooling in the rate of increase at service providers. A similar trend was recorded for output prices, as the rate of charge inflation ticked higher amid a faster rise at manufacturers.

Private sector firms continued to register severe constraints on capacity, as backlogs of work rose markedly. Nevertheless, challenges retaining employees and finding suitable candidates for current vacancies led to a much reduced rate of job creation. Service sector job creation was especially hard hit, with workforce numbers barely rising amid significant difficulties hiring.

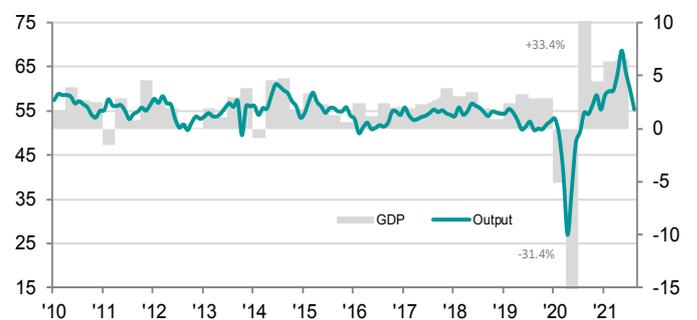
Services Business Activity Index
Manufacturing Output Index
sa, >50 = growth since previous month



Source: IHS Markit.

U.S. Composite PMI Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, Bureau of Economic Analyses.

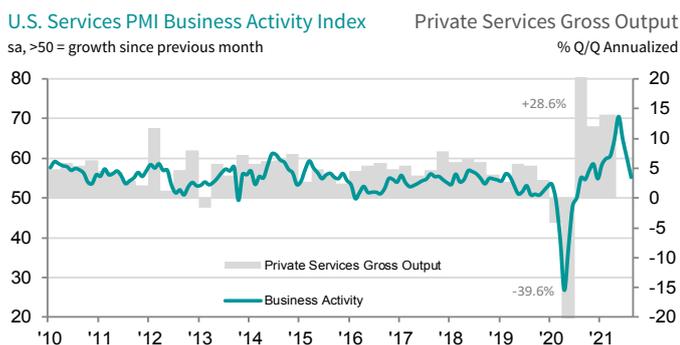
Comment

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

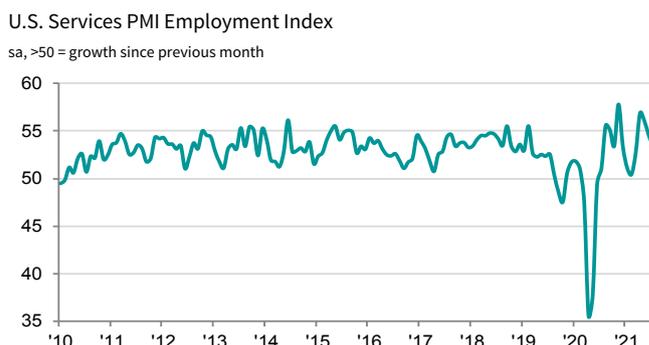
“Growth slowed sharply in the US service sector in August, joining the manufacturing sector in reporting a marked cooling in demand and encountering growing problems finding staff and supplies. Jobs growth almost stalled among the surveyed companies in August and supplier lead times are lengthening at a near record rate.

“While the resulting overall pace of economic growth signalled is the weakest seen so far this year, backlogs of uncompleted work are rising at a rate unprecedented in at least 12 years, underscoring how supply and labor shortages are putting the brakes on the recovery. The inevitable upshot is higher prices, with firms' input costs and selling prices rising at increased rates again in August, continuing the steepest period of price growth yet recorded by the survey by a wide margin.

“Encouragement comes from a rise in business expectations about the year ahead, though optimism in the service sector in particular remains off the high seen in the second quarter, to a large extent reflecting concerns over the spread of the Delta variant.”



Sources: IHS Markit, Bureau of Economic Analysis.



Sources: IHS Markit.

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Survey 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

Data were collected 12-31 August 2021.

Survey data were first collected October 2009.

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Flash vs. final data

Since October 2009 the average difference between final and flash Services Business Activity Index values is 0.2 (0.4 in absolute terms). Since October 2009 the average difference between final and flash Composite Output Index values is 0.1 (0.4 in absolute terms).

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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.

ihsmarkit.com/products/pmi.html