New business growth accelerates to four-month high in July

**KEY FINDINGS**

- Faster rates of expansion in output and new orders
- Business expectations slip to new series low
- Selling prices rise only fractionally

U.S. service providers signalled a solid start to the second half of 2019. July data indicated a faster rise in business activity, supported by more robust domestic and foreign client demand. New orders increased at the quickest rate since March and new business from abroad grew at the strongest pace for five months. Nonetheless, positive sentiment towards output slipped to a new series record low. At the same time, the rate of job creation was only moderate overall.

Meanwhile, inflationary pressures were historically subdued in July, with rates of both input price and output charge inflation easing.

The seasonally adjusted final IHS Markit U.S. Services Business Activity Index registered 53.0 in July, up from 51.5 in June and accelerating further from May’s recent low. The upturn in business activity was solid overall and the fastest for three months. Service providers attributed the rise to greater new business and improved client demand. That said, the pace of expansion was slower than that seen at the start of the year and below the series average (55.1).

Supporting the acceleration in output growth was a stronger increase in new business. Service providers registered the quickest expansion in new orders since March, with the rate of growth accelerating for the second successive month. Foreign client demand also improved, with new business from abroad rising at the sharpest pace since February. The rise in new export orders was also faster than the series average.

Although client demand strengthened further from May’s recent low, service sector firms reported another fall in business confidence during July. The degree of optimism slipped for the sixth month running to a fresh series record low, reflecting heightened economic uncertainty.

Weaker business sentiment was further reflected in a further moderate increase in employment. Despite a faster rise in business requirements, the rate of job creation was broadly unchanged from those seen in the previous four months. Furthermore, service providers registered further pressure on capacity as the level of outstanding business increased for the seventh successive month and at a stronger pace in July. The accumulation of backlogs was solid overall and the sharpest for four months.

On the price front, output charges rose only slightly during July. Panellists stated that the rate of charge inflation was historically muted amid promotional discounting to entice new customers.

The subdued rise in output prices came alongside only a moderate increase in input costs. Where a rise was reported, firms attributed this to higher purchase costs following temporary supplier shortages amid unseasonable bad weather. That said, the rate of inflation was among the slowest for over two years.
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 52.6 in July, up from 51.5 in June, to signal a moderate expansion in overall business activity. The rise was led by service providers who registered a faster increase in output, with manufacturers only recording a slight upturn in production.

Similarly, the rate of new business growth ticked up and was the fastest since March as both manufacturers and service providers registered a quicker expansion. Export orders did not fare as well, with only a fractional overall upturn recorded in July. A contraction in new business from abroad among manufacturers contrasted with an accelerated increase at service providers.

Private sector firms recorded a further rise in employment in July, with the rate of job creation in line with that seen in June. The rise in workforce numbers came alongside a faster increase in backlogs of work. The accumulation of incomplete work was led by service sector firms, as manufacturers recorded a fall.

Business confidence weakened among both manufacturers and service providers, with each sector registering fresh series lows amid ongoing uncertainty.

Inflationary pressures remained historically subdued as rates of both input cost and output charge inflation softened.

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

“An improvement in the overall rate of business growth signalled by the services PMI for July is welcome news, but the overall weak pace of expansion remains a concern. The PMIs for manufacturing and services collectively point to GDP expanding at an annualized rate of under 2% in July, below that seen in the second quarter and among the weakest seen over the past three years.

"A sharp drop in future expectations meanwhile suggests downside risks have increased in the near-term at least, hinting that the upturn in growth seen in July could prove short-lived and that GDP growth could remain disappointingly modest in the third quarter.

"Optimism is at its lowest ebb since comparable data were first available in 2012 as companies have grown increasingly concerned about the year ahead, fueled by trade war worries and wider geopolitical jitters, as well as growing worries that the economic cycle has peaked."