News Release

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IHS MARKIT US SERVICES PMI™

INCLUDING IHS MARKIT US COMPOSITE PMI™

New business growth weakest since October 2017

KEY FINDINGS

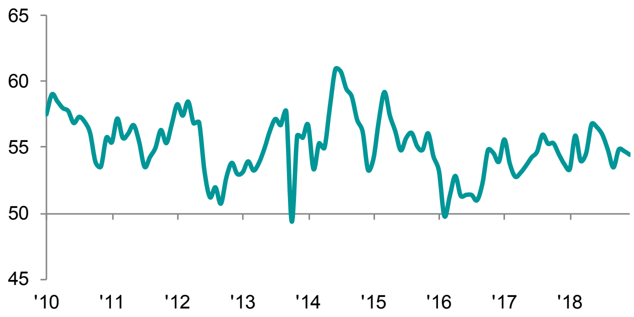
New orders expand at solid, albeit slower rate

Business activity growth softens to three-month low

Business confidence dips to lowest in a year

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

The U.S. service sector signalled a solid expansion in business activity in December, albeit the slowest for three-months. The rate of growth in new business eased to a 14-month low, but the pace of job creation picked up. Subsequently, panellists registered a renewed fall in backlogs as pressure on capacity decreased. Concerns surrounding the longevity of the upturn in new business led to the weakest expected rise in future output since December 2017.

Meanwhile, input prices rose at the slowest rate since August. In line with a softer rise in cost burdens and less robust client demand, output charges increased at the weakest pace since December 2017.

The seasonally adjusted final IHS Markit U.S. Services Business Activity Index registered 54.4 in December, down from 54.7 in November, but up from the earlier reported flash figure of 53.6. The upturn in business activity was driven by a further rise in new orders and increased repeat business. Although down on growth rates seen earlier in the year, the upturn was solid overall. The final quarterly average of 2018 matched that seen in the third quarter at 54.7.

The rate of new business growth eased for the third successive month in December, with service providers registering the slowest increase in new orders since October 2017. Where a rise was reported, panellists linked this to favourable demand conditions. However, some firms noted that higher interest rates and greater uncertainty had dampened client demand.

Similarly, service sector firms noted a fall in foreign client demand, with the New Export Business Index signalling the first monthly contraction in new business from abroad since August. Although only fractional, the decrease was attributed to greater competition and ongoing global trade tensions.

In line with a weaker rise in new business, service providers registered a lower degree of optimism towards future business activity in December. The level of positive sentiment was the least confident for a year amid concerns surrounding the longevity of new order growth.

Despite a contraction in the level of outstanding business, service sector firms noted a solid rise in employment. The rate of job creation accelerated to a three-month high amid reports of shortages in capacity following a further increase in workloads.

Service providers across the U.S. continued to register a rise in input prices, albeit the weakest since August. Where an increase in costs were reported, panellists linked this to higher wage and transportation costs, with some also noting that higher interest rates were pushing up cost burdens.

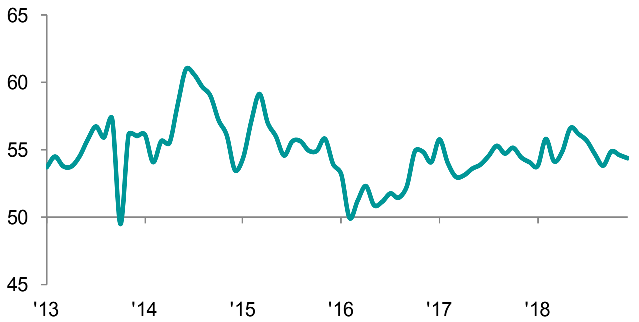
Subsequently, firms raised their selling prices in an effort to partly pass on higher input costs to clients. The rate of charge inflation eased to a 12-month low, however, amid greater efforts to attract customers.

IHS MARKIT US COMPOSITE PMI™

New order growth eases to joint-slowest since April 2017

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

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 Output Index is a weighted average of the US Manufacturing Output Index and the US Services Business Activity Index. The Composite Output Index posted 54.4 in December, down from 54.7 in November. The latest index figure signalled the softest growth since September and was below the series trend. The upturn in business activity eased to a three-month low.

New order growth softened for the third successive month in December to the joint-weakest since April 2017 amid slower rates of expansion in both the manufacturing and service sectors. Private sector new export order growth eased only slightly, despite a contraction in new business from abroad among service providers.

In line with weaker new order growth, the rate of job creation across the U.S. private sector eased to the second-softest in 18 months. Although the pace of increase in employment picked up in the service sector, manufacturing firms registered the slowest rise since June 2017.

On the price front, input cost inflation softened in December to the slowest since January. Panellists continued to suggest that stockpiling and tariff issues drove up purchase prices in the goods producing sector, whilst service providers cited higher wage and transport costs. Charge inflation also eased and was the weakest in 2018.

COMMENT

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

"Service sector business activity grew at a reassuringly solid rate in December, though like the manufacturing economy has seen the pace of expansion moderate somewhat since the strong rates enjoyed earlier in the year. Despite the slowing, the December surveys remain consistent with GDP growing at a healthy annualised rate of about 2.5% in the fourth quarter, with momentum easing only very slightly as the quarter proceeded.

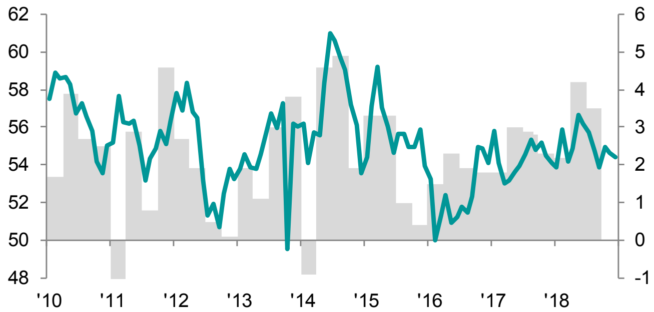
"Hiring also remains encouragingly buoyant. The December survey is indicative of non-farm payrolls growth of approximately 190,000, driven mainly by increased service sector job gains as firms boosted capacity in line with rising demand. Domestic markets remained the main source of business growth, though the weaker dollar was also reported to have helped boost exports.

"Growth may continue to moderate in coming months, however, as backlogs of unfinished work across the manufacturing and service sectors failed to rise for the first time since June 2017, reflecting the recent slowing in growth of new business. Firms' expectations of growth in the coming year also deteriorated markedly, down to the second-lowest in over two years, adding to the gloomier outlook.

"Inflationary forces meanwhile cooled during the month as lower oil prices helped to alleviate upward cost pressures from tariffs and, to a lesser extent, wages. Average prices charged for goods and services rose at the slowest rate for a year as a result, which should feed through to lower consumer inflation in coming months, with PCE inflation dipping below 2%."

Composite Output Index — Gross Domestic Product (GDP)

sa, >50 = growth since previous month — %qr/qr, annualised



Sources: IHS Markit, Bureau of Economic Analysis.

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Methodology
The IHS Markit US 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.

December 2018 data were collected 5-18 December 2018.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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.

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