News Release

Embargoed until 0945 EDT (1345 UTC) 6 July 2020

IHS Markit U.S. Services PMI™
Including IHS Markit U.S. Composite PMI™

Business activity contraction slows in June as new business nears stabilization

Key findings

- Softest fall in output since February amid strengthening demand
- Renewed increases in cost burdens and selling prices
- Business confidence improve

Data were collected 12-29 June 2020

June PMI™ data signalled a notably softer rate of contraction in business activity across the U.S. service sector as many companies began to reopen following the easing of coronavirus disease 2019 (COVID-19) restrictions. The loosening of lockdown measures also led to the broad stabilization of new orders, while export sales rose for the first time so far in 2020. As a result, the rate of job shedding softened markedly as some firms highlighted the hiring of new employees to help fulfil new business inflows. Excess capacity also eased as backlogs fell only fractionally. Although business confidence was historically muted, it signalled renewed optimism as hopes of stronger demand drove sentiment higher.

Meanwhile, inflationary pressure returned as both input prices and output charges rose for the first time since February, with both increasing at solid rates.

The seasonally adjusted final IHS Markit US Services Business Activity Index registered 47.9 at the end of the second quarter, up significantly from 37.5 in May and above the earlier released ‘flash’ figure of 46.7. The marked easing in the rate of output contraction was in part linked to the reopening of service providers and the gradual return of customer demand. The pace of decline was the slowest in the current four-month sequence of decline.

New business inflows meanwhile broadly stabilized in June following three successive monthly contractions. The rate of decline eased notably from April’s record as a number of firms reported an uptick in customer demand following the gradual reopening of the economy. At the same time, new export orders for services expanded at the sharpest rate in almost a year, although the rate of growth was only fractional.

Inflationary pressures intensified for the first time since February at the end of the second quarter, as both input prices and output charges increased. Companies registered a solid rise in cost burdens as some suppliers hiked prices following the resumption of operations at service providers. The rate of input price inflation was the fastest since February 2019.

In response to higher input costs, firms partially passed on higher supplier prices to clients through greater selling prices. The increase was solid overall and the sharpest for 16 months. Meanwhile, service providers continued to cut their workforce numbers, but at a much reduced pace. Although some companies noted that lay offs stemmed from ongoing closures and subdued demand, others resumed hiring as new order inflows stabilized.

Excess capacity remained evident in June, albeit to a lesser extent than prior months. The latest reduction in backlogs of work was only fractional as firms processed unfinished business upon the resumption of operations. Some respondents also stated that strengthening client demand had put pressure on capacity.

Finally, business confidence returned to positive territory at the end of the second quarter, amid hopes of further boosts to new sales. Optimism towards the outlook for output follows two consecutive months of pessimism. Although positive, sentiment remained historically subdued.
Much softer rates of contraction were reported across the manufacturing and service sectors during June as the economy began to reopen.

The IHS Markit Composite PMI Output Index* posted 47.9 in June, up significantly from 37.0 in May, and was also higher than the earlier released 'flash' figure of 46.8. The slower overall decline in output was linked to the resumption of operations at manufacturers and many service providers.

The softer overall contraction also stemmed from reports of stronger demand conditions relative to those seen earlier in the pandemic. The uptick in sales led to the stabilization of new order inflows during June. Although export sales in the service sector increased during the month, a modest decline in manufacturing foreign client demand led to a further overall fall.

Manufacturers and service providers alike registered notably slower rates of job shedding in June, as strengthening demand pushed some firms to increase their staffing numbers. That said, evidence of excess capacity remained as backlogs of work fell further.

Supplier price hikes drove the first increase in cost burdens since February, with private sector firms partly passing on higher costs to clients.

Finally, companies expressed optimism towards the outlook for output over the coming year for the first time since March.

*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.

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

“June saw a record surge in the PMI’s main gauge of business activity in the US as increasing numbers of companies returned to work and expanded their operations amid the reopening of the economy. The survey points to a strong initial rebound from the low point seen at the height of the pandemic lockdown in April, with indicators of output, demand, exports and employment all showing steep gains. Financial services and technology companies are now reporting improved demand, as are many consumer-facing companies. Many, however, remain constrained by social distancing measures.

“With business confidence in the outlook picking up again in June, a return to growth for the economy in the third quarter looks likely, though this will very much depend on the extent to which demand continues to strengthen. There remains a strong possibility that growth could tail off after the initial rebound due to weak demand and persistent virus containment measures. The need to reintroduce lockdowns to fight off second waves of coronavirus infections will pose a particular threat to recovery momentum, and could drive a return of the recession.”
About IHS Markit
IHS Markit (NYSE: 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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please email katherine.smith@ihsmarkit.com. To read our privacy policy, click here.

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.