December PMI™ data signalled a slower expansion in business activity across the U.S. service sector. Although still solid, the upturn eased notably from November’s recent high, as new business growth softened amid increased virus cases. Additional restrictions also dampened foreign client demand which fell for the first time since May. Cost burdens continued to soar, as the rate of input price inflation picked up again to reach a series record high. Meanwhile, business confidence softened as the post-election surge in optimism dwindled and the coronavirus disease 2019 (COVID-19) pandemic worsened.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 54.8 in December, down notably from 58.4 in November and also lower than the earlier released ‘flash’ estimate of 55.3. Although the rate of expansion was slightly stronger than the series average, it marked a significantly slower upturn in output, as a rise in virus cases dampened client demand.

The latest increase in total new business was the slowest for four months. The loss of growth momentum reportedly stemmed from difficulties among consumer-facing firms following another surge in virus cases and additional social distancing restrictions.

Alongside a slowdown in domestic demand growth, service sector firms registered the first contraction in new business from abroad since May. Panellists often stated that the fall in foreign client demand stemmed from greater travel restrictions imposed due to the ongoing pandemic. The rate of decline was solid overall, but was much softer than those seen in the spring at the start of the pandemic.

At the same time, service providers noted a substantial increase in input prices during December. The rate of cost inflation accelerated again and was the fastest since data collection began in October 2009. Higher cost burdens were often linked to greater PPE and packaging prices, amid supplier shortages and rising demand.

Despite a record rise in input prices, firms registered a softer increase in output charges at the end of 2020. The rate of charge inflation eased from November’s recent peak, but remained sharp and quicker than the series trend. The moderation in selling price rises was commonly attributed to efforts to boost sales and attract new clients amid challenging demand conditions.

The degree of business confidence slipped in December, as the post-election boost to optimism waned and a resurgence in virus cases hampered demand and business operations. The level of optimism was down notably from that seen in November and the lowest for three months.

In line with a slower rise in new business inflows, service sector firms expanded their workforce numbers at a more modest pace in December. The rate of job creation was solid and above the series average, however, as pressure on capacity remained evident at the end of 2020. Backlogs of work rose marginally, with some firms associating the accumulation in incomplete business to more challenging operational conditions and public health measures.
Manufacturers and service providers register softer expansions in output in December.

The IHS Markit Composite PMI Output Index* posted 55.3 in December, down from 58.6 in November, to signal the slowest upturn in business activity for three months.

Goods producers and service providers alike recorded softer increases in new sales, as client demand was dampened by a rise in virus cases. The service sector was particularly impacted, as customer-facing firms reported lower footfall amid greater restrictions. Private sector companies registered a renewed fall in new export orders, the first such decrease since July.

Despite cost burdens rising at the sharpest pace since data collection began in October 2009, service sector firms sought to limit selling price increases in an effort to boost sales. Manufacturers, however, raised their output charges at the steepest rate since May 2011.

Meanwhile, business expectations moderated in December as post-election optimism was dampened by another significant rise in virus cases. The degree of confidence was the lowest for three months.

Finally, private sector employment continued to increase at the end of 2020, but the rate of job creation eased notably since November.

*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:

“Rising virus case numbers took an increasing toll on the US economy in December, with business activity, order books and employment all growing at much reduced rates. The slowdown was especially steep in the service sector, where stricter social distancing measures hit consumer-facing businesses in particular.

“While the survey data remained sufficiently resilient to indicate that GDP continued to expand at a relatively robust rate in the fourth quarter, the near-term outlook has deteriorated. Business expectations for the coming year fell considerably compared to November, as some post-election exuberance waned and companies grew more anxious about the ongoing impact of the pandemic. Rising case numbers represent an increased risk to the economy in the coming weeks, and hopes rest to a large extent on pandemic stimulus lifting the economy to prevent another downturn.

“More encouragingly, businesses remain much more confident about the outlook in a year’s time than before the successful vaccine developments, reflecting greater optimism for prospects of life returning to normal in the second half of 2021.”
Methodology

The IHS Market 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

December data were collected 04-18 December 2020.
Data collection began in October 2009.

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