February PMI™ data indicated the fastest expansion of business activity across the U.S. service sector since July 2014. The upturn in output was supported by a marked rise in new orders following stronger client demand. However, despite further pressure on capacity, service providers registered only a fractional rise in employment. Meanwhile, concerns regarding the longevity of the pandemic led to a moderation in business confidence.

At the same time, cost pressures remained elevated, with the rate of input cost inflation accelerating to the fastest on record (since October 2009). In response, firms raised their selling prices at the second-quickest rate since data collection began over 11 years ago.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 59.8 in February, up from 58.3 in January and above the earlier ‘flash’ figure of 58.9. The expansion in output was the sharpest in over six-and-a-half years. The upturn was reportedly linked to stronger client demand and a further rise in new business.

The increase in new sales also accelerated in February. New order inflows expanded at the steepest pace since April 2018. Anecdotal evidence suggested the sharp upturn was due to stronger client demand and greater customer confidence following the start of the vaccine roll-out.

In contrast, service providers registered a renewed contraction in new export orders, albeit only fractional overall. Firms stated that ongoing COVID-19 restrictions and limits on travel in key export markets weighed on foreign client demand.

Input costs rose further in February, amid hikes in supplier charges and wage bills. Some service providers also noted that higher PPE prices pushed up cost burdens. The rate of cost inflation quickened to the fastest since data collection began in October 2009.

In response, service sector firms sought to pass on higher cost burdens to clients. The rate of charge inflation was the second-fastest on record.

At the same time, employment continued to rise in February, albeit only fractionally. The rate of job creation eased to the slowest in the current eight-month sequence of growth.

Due to little-changed staffing levels, backlogs of work were accumulated at the sharpest pace for five months. Greater levels of outstanding business were often linked to a further rise in new orders and pressure on capacity.

Service providers signalled upbeat expectations regarding the outlook for output over the coming year in February. Optimism was commonly attributed to hopes of a successful vaccine roll-out and stronger client demand. That said, the degree of confidence moderated from that seen in January, amid concerns regarding the duration of the pandemic.
Private sector output growth fastest since August 2014

The IHS Markit Composite PMI Output Index* posted 59.5 in February, up from 58.7 in January, to signal a substantial upturn in private sector business activity. A further robust expansion in manufacturing production and a faster increase in service sector activity helped boost total output.

Contributing to the overall rise in activity was a stronger rise in new business. Private sector new order growth was the fastest since April 2018. Despite a renewed contraction in service sector foreign client demand, an expansion in manufacturing export orders led to another modest upturn in overall new business from abroad.

Cost pressures remained marked in February, with the rate of input price inflation accelerating to the fastest since data collection began in October 2009.

Firms were able to pass on higher costs through a robust rise in output charges. The pace of increase was the second-steepest on record, behind November 2020.

Reflecting stronger pressure on capacity, private sector firms took on more workers in February. That said, service providers reined in job creation, with employment only rising fractionally. Manufacturers, however, registered a sharp rise in staffing levels.

Finally, business confidence moderated from that seen in January due to service sector concerns regarding the longevity of the pandemic and success of the vaccine roll-out.

*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.

Comment

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

“US business activity is growing at the fastest rate for six-and-a-half years, setting the economy up for a strong start to 2021. Although consumer-facing sectors, notably hospitality, travel, and tourism, continue to be adversely affected by COVID-19 restrictions, and will be for some time to come, other parts of the economy are springing back into life. Financial services and business services are faring well, accompanying a strong manufacturing recovery. Even some hard hit consumer-facing sectors are enjoying some loosening of restrictions or adapting to life with the virus.

“Most of these higher costs will inevitably prove transitory as pandemic-related disruptions to supply start to ease, but it remains unclear how long these price pressures will persist for due to uncertainties over the duration of social distancing requirements and the strength of demand over the coming months.”
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 to 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
February data were collected 10-23 February 2021.
Data collection began in October 2009.

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