Business activity slumps further amid COVID-19 pandemic, but speed of downturn eases

Key findings

Output and new business drops substantially as COVID-19 crisis continues

Business confidence improves but remains negative

Input costs and output charges fall further

Data were collected 12-28 May 2020.

U.S. service providers indicated a further significant, albeit softer, contraction in business activity in May, as the impact of the coronavirus disease 2019 (COVID-19) continued to dampen client demand. At the same time, new order inflows declined at a slower rate than in April, despite domestic and foreign demand remaining subdued. Consequently, companies cut jobs at a considerable pace, and one that was only slightly slower than April’s recent record. The reduction in employment partially stemmed from pessimism among firms towards the outlook for activity over the next year, as extreme levels of business uncertainty weighed on confidence.

In an effort to boost sales, firms reduced their selling prices further. The drop in output charges was aided by lower cost burdens.

The seasonally adjusted final IHS Markit US Services Business Activity Index registered 37.5 in May, up from April’s record low of 26.7 and slightly higher than the ‘flash’ figure of 36.9. The rate of reduction in activity softened notably amid some reports of businesses returning to work, but was nonetheless the second-sharpest since data collection began in October 2009. The decrease in service sector output was widely linked to emergency public health measures introduced to stem the spread. Stay-at-home measures and social distancing presented challenges to business reopening, especially those who focus on customer-facing services.

The overall decline in output was also reportedly linked to weak client demand. A number of firms stated that new order inflows remained sluggish as some clients were yet to reopen following temporary shutdowns. With the exception of April’s recent low, the latest data indicated the steepest reduction in new orders since the series began. Some firms suggested domestic demand was slowly picking up following a loosening of restrictions, however, new business from abroad also decreased at a historically substantial pace. Alongside ongoing global lockdown conditions, firms suggested that travel restrictions had limited foreign demand.

Expectations towards the outlook for output over the coming year remained negative in May, as uncertainty regarding the length of any recovery and when this would begin reportedly weighed on sentiment. That said, the degree of pessimism moderated as states loosened lockdown measures.

As firms sought to bolster new orders amid challenging demand conditions, they lowered their selling prices for the third month running in May. Downward pressure on prices charged was aided by another monthly decline in cost burdens. The reduction in input prices was reportedly linked to weaker demand for materials. Lower wage costs and oil prices were also highlighted.

Reflecting weak demand conditions, service sector firms reduced their staffing numbers at a significant rate in May. The rate of job shedding was faster than any other seen before April, as lower new business inflows led to greater excess capacity. Another monthly slump in total sales also drove a further depletion in outstanding business. The fall was steep as firms worked through previously held orders.
Marked contraction in private sector output amid COVID-19 pandemic

Substantial decline in manufacturing and service sector activity in May.

The IHS Markit Composite PMI Output Index* posted 37.0 in May, up from April’s record-breaking low of 27.0. Although the pace of decline eased, it remained significant and the second-fastest since data collection began in October 2009.

The headline figure was driven by weak client demand and a notable drop in new business. Manufacturers and service providers alike registered marked contractions amid reports of order cancellations and difficulties reopening. New export orders also fell substantially as global lockdowns were extended.

Reflecting the decrease in new orders and pessimism among private sector firms, employment contracted further in May. At the same time, another monthly reduction in backlogs of work led to greater excess capacity.

On the price front, inflationary pressures remained muted, as input costs and output charges fell further in May. The reduction in selling prices was marked as firms sought to boost sales.

*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:

“The PMI numbers indicate that the US economy remained in a steep downturn in May. Encouragingly, the rate of contraction has eased considerably since the height of the lockdown in April as some firms get back to work and economic activity starts to resume.

“While views about prospects for the year ahead remained negative on balance, the degree of pessimism has also moderated considerably since April, to hint that sentiment is improving as increasing numbers of companies see the worst of the lockdown being behind them.

“A substantial part of the service sector nevertheless continued to be devastated by social distancing measures, and looks set to remain so for some months to come, limiting scope for a V-shaped recovery. The ongoing steep fall in employment remains a particular concern, pointing to a weakened consumer sector but also underscoring heightened risk aversion as companies seek to cut costs in the face of collapsing sales and an uncertain outlook.”
Contact

Chris Williamson
Chief Business Economist
IHS Markit
T: +44-207 260 2329
chris.williamson@ihsmarkit.com

Siân Jones
Economist
IHS Markit
T: +44-1491-461-017
sian.jones@ihsmarkit.com

Katherine Smith
Corporate Communications
IHS Markit
T: +1 (781) 301-9311
katherine.smith@ihsmarkit.com

Methodology
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 estates 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
May data were collected 12-28 May 2020.
Data collection began in October 2009.

Disclaimer
The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit’s prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information (“data”) contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers’ Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

© 2020 IHS Markit