New business growth slides to lowest in survey history

KEY FINDINGS

- Expansion in new orders eases to marginal rate
- Employment declines for first time since February 2010
- Input prices reduced at sharpest pace in series history

September data indicated only a slight increase in business activity across the U.S. service sector, with the expansion constrained by the slowest monthly rise in new business recorded since data collection began in October 2009. Subsequently, firms reduced their workforce numbers for the first time since early-2010. Business confidence also remained subdued amid ongoing economic uncertainty.

On the price front, input costs fell for only the second time in the series history. Firms also cut their selling prices in an effort to remain competitive.

The seasonally adjusted final IHS Markit U.S. Services Business Activity Index registered 50.9 in September, in line with the earlier ‘flash’ figure and up slightly from 50.7 in August, but nonetheless signalled one of the slowest increases in output for over three years. Many firms noted that less robust client demand held back the expansion. Moreover, the third quarterly average for 2019 signalled the weakest business activity performance across the sector since the same period three years ago.

Concurrently, new business growth slipped further to the slowest in the near-decade long series history in September. The marginal expansion was reportedly stymied by tough competition and soft demand conditions. Ongoing economic uncertainty also reduced client demand, notably in foreign markets, with new export orders falling for the second month running. The decrease in new business from abroad the fastest since the series began in 2014.

In line with softer demand conditions, service sector firms signalled the first contraction in employment since February 2010. Furthermore, the drop in workforce numbers was the sharpest since the end of 2009. A number of companies reported difficulties finding suitable candidates for unfilled vacancies, but in other firms the drop in headcounts reflected cost cutting amid signs of excess capacity. Service providers reported the sharpest fall in the level of outstanding business since April 2014.

Meanwhile, cost burdens faced by service providers declined for only the second time in the decade long series history. Input prices fell at the sharpest pace since data collection began. Firms linked reductions to lower purchase prices and reduced borrowing costs following the recent interest rate cut.

As a result, service providers continued to offer discounts and reduce their output charges in September. Firms also stated that softer client demand and efforts to stay competitive were factors behind the drop in output prices.

Expectations towards output over the year ahead remained muted at the end of the third quarter. Although the degree of confidence picked up slightly since August, it was the second-weakest in the series history. Many firms highlighted concerns surrounding ongoing business uncertainty and gloomier global economic growth projections.
Marginal rise in private sector output, but new business growth eases to series low

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 PMI Output Index is a GDP-weighted average of the US Manufacturing PMI Output Index and the US Services Business Activity Index. The Composite PMI Output Index registered 51.0 in September, in line with the earlier ‘flash’ figure and up from 50.7 in August and indicated only a slight expansion in output across the private sector. The upturn was among the weakest for over three years as only marginal growth in the service sector weighed on the overall increase.

Meanwhile, new business rose at the slowest pace since data collection began ten years ago. Although new order growth quickened in the manufacturing sector, as service providers signalled only a marginal expansion. Challenging external demand conditions led to a further decline in new export orders, the second-fastest in the series history (since September 2014).

Weak demand conditions led to a reduction in employment, with the slight increase across the manufacturing sector offset by a marginal contraction among service providers.

On the price front, input prices continued to decline with reductions made to a greater extent across the service sector. In contrast, manufacturers registered a quicker increase in cost burdens. Subsequently, output charges were broadly unchanged in September, as service providers cut their selling prices fractionally.

Business confidence remained subdued across the private sector, which survey respondents linked to ongoing economic uncertainty.

COMMENT

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

“A disappointing service sector PMI follows news of lacklustre manufacturing and means the past two months have seen one of the weakest back-to-back expansions of business activity since 2009, sending a signal of slower GDP growth in the third quarter. The surveys are consistent with the economy growing at a 1.5% annualised rate in the third quarter, with forward-looking indicators suggesting further momentum could be lost in the fourth quarter. In particular, inflows of new business have almost stalled, with September seeing the smallest increase since 2009, and business expectations about the year ahead remain stuck at one of the gloomiest levels since at least 2012.

“In this environment, companies are taking an increasingly cost-conscious approach to payrolls, with September consequently seeing surveyed firms report a net drop in headcounts for the first time since 2010. This translates into non-farm payroll growth trending below 100,000.

“Price pressures have also abated in line with the weak demand picture, suggesting official inflation gauges could likewise moderate in coming months.”
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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.

September 2019 data were collected 12-25 September 2019.

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