Strong business activity growth rounds off best quarter in PMI survey history

Key findings

Expansions in output and new orders ease but remain robust

Further substantial increases in cost burdens

Pressure on capacity builds amid hiring difficulties

Data were collected 10-28 June 2021.

June PMI™ data indicated a further marked upturn in business activity across the U.S. service sector, supported by a substantial rise in client demand. Business confidence in the outlook also improved to the second-highest in seven years. Rates of output and new order growth eased from May's record highs, however, and capacity constraints meant backlogs of work grew at the quickest rate for ten months. Although firms continued to hire new workers, challenges finding suitable candidates weighed on the pace of job creation.

Meanwhile, input prices increased at the second-fastest rate on record as supplier price hikes and greater wage bills pushed up cost burdens. Nonetheless, accommodative demand conditions allowed firms to partially pass on higher costs to clients. The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 64.6 in June, down from 70.4 in May and slightly below the earlier released 'flash' estimate of 64.8. The latest expansion in output was the third-fastest since data collection began in October 2009, only slower than recent upturns in May and April, respectively.

Contributing to the robust rise in activity across the service sector was a further marked increase in new business at the end of the second quarter. Alongside strong customer demand, firms attributed the upturn in new sales to the acquisition of new clients. Although the rate of new business growth slipped to a three-month low, it was still the third-fastest on record.

Mirroring the trend for total sales, new export orders rose at a strong pace that was only slightly slower than May’s recent peak and among the steepest in the history of the survey. The fourth successive monthly expansion in foreign client demand was linked by companies to the relaxation of COVID-19 restrictions in key export markets.

At the same time, service providers registered the second-steepest rise in input costs on record in June. Although the rate of input price inflation eased from May’s recent high, firms continued to highlight rising supplier, fuel and wage costs.

Service sector firms were able to partially pass on higher cost burdens to clients, however, as output charges increased at the second-steepest rate on record, albeit with the rate of inflation cooling from May’s peak.

Greater new order inflows placed greater pressure on output capacity during June, as the level of outstanding business expanded at the sharpest rate for ten months. Labour shortages reportedly exacerbated strains meeting demand following sustained and robust increases in new sales. The rate of job creation was strong overall, but softened amid challenges enticing workers back to employment.

Finally, business expectations regarding the outlook for output over the coming year improved at the end of the second quarter. The degree of optimism strengthened to the highest since November 2020, as firms gained confidence following a more extensive reopening of the economy and expressed hopes of further boosts to client demand. Survey respondents also cited a reduction in concerns over inflation.
Further marked expansion in private sector output in June

The IHS Markit U.S. Composite PMI Output Index* posted 63.7 in June, down from May’s recent high of 68.7. The overall upturn eased following slower output expansions across both the manufacturing and service sectors. Nonetheless, the rate of growth in activity was substantial and the second-fastest on record.

Contributing to the softer upturn in output was a slight moderation in the rate of new business growth during June. With the exception of April and May data, the latest pace of expansion was the sharpest since data collection for the series began in October 2009. Similarly, the rate of increase in new export orders was historically elevated despite softening to a three-month low.

At the same time, cost pressures remained marked in June. Further raw material shortages and hikes in supplier and fuel costs reportedly pushed input prices higher, according to panellists. The rate of cost inflation was the second-quickest on record. Firms passed on greater costs to clients via the second-sharpest increase in average selling prices for goods and services since data collection began in 2009.

Challenges hiring new employees persisted in June, causing the rate of job creation to ease in the manufacturing and service sectors. Labour and material shortages reportedly resulted in greater strains on output capacity, as private sector backlogs of work rose at the quickest rate on record.

Comment

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

“June saw another month of impressive output growth across the manufacturing and services sectors of the US economy, rounding off the strongest quarterly expansion since data were first available in 2009.

“The rate of growth cooled compared to May’s record high, however, adding to signs that the economy’s recovery bounce peaked in the second quarter.

“Some of the easing in the rate of expansion reflects payback after especially strong expansions in prior months as the economy opened up from pandemic-related restrictions, especially in consumer-facing companies. However, many firms reported that business activity had been constrained either by shortages of supplies or difficulties filling vacancies. Backlogs of uncompleted orders are consequently rising at a rate unprecedented in the survey’s history, underscoring how demand is outstripping supply of both goods and services.

“These capacity constraints are not only stifling growth, but also driving prices sharply higher. June saw the second-steepest rise in average prices charged for goods and services in the survey’s 12-year history, though some encouragement can be gleaned from the rate of inflation easing in the service sector compared to May.”
Survey 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 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

Data were collected 18-28 June 2021.

Survey data were first collected October 2009.

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