April data signalled a slower increase in business activity across the U.S. service sector. Output rose at the softest pace since March 2017 as new business growth also eased to a two-year low. Despite a further increase in backlogs of work, firms reined in their hiring, with the rate of job creation slowing to a two-year low. Uncertainty and increased competition meanwhile pushed business expectations to the lowest for almost three years, while rates of input price and output charge inflation eased to 26- and 18-month lows, respectively.

The seasonally adjusted final IHS Markit U.S. Services Business Activity Index registered 53.0 in April, down from 55.3 in March. The latest expansion was broadly in line with the earlier released ‘flash’ figure of 52.9, and signalled the slowest increase in output since March 2017. The upturn was below the long-run series average and indicated a less robust start to the second quarter of 2019. Some firms noted that client demand was subdued, and a number of survey respondents stated that increased competition and uncertainty had dented sales growth.

Similarly, new business increased at a slower rate in April. The upturn was the softest for two years, amid reports of less robust demand conditions. Nevertheless, some firms stated that new client acquisitions had driven sales higher. The pace of new export sales growth was broadly in line with that seen in March and marginal overall.

Service providers also reported a lower degree of confidence in future output growth in April. Although the respective index posted well above the 50.0 neutral mark, the level of optimism dipped to its lowest level since mid-2016. A number of survey respondents stated that greater uncertainty and more intense competition had dampened expectations towards the year ahead.

On the prices front, firms noted a slower rise in input costs in April. Panellists widely commented that the softer rise was linked to less marked increases in raw material prices. Service providers also reported a less robust rise in output charges. The increase was only marginal overall and the slowest since October 2017. Some firms also noted that greater competition had placed pressure on companies to keep selling price rises to a minimum.

Meanwhile, the slowdown in new business resulted in a softer increase in employment in April. Where a rise was reported, panellists linked this to the replacement of leavers following long-held vacancies and a further increase in new business. The rate of job creation was only moderate and the slowest for two years.

Despite a slower rise in workforce numbers, service sector firms continued to register a rise in outstanding business in April. The increase was the fourth in as many months and broadly in line with the series trend.
Output expansion slowest since March 2017

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 weighted average of the US Manufacturing PMI Output Index and the US Services Business Activity Index. The Composite PMI Output Index registered 53.0 in April, down from 54.6 in March and the lowest since March 2017. Although the output expansion quickened across the manufacturing sector, production growth remained relatively subdued. A less robust service sector performance also weighed on growth.

Similarly, a slowdown in service sector new business growth counteracted a slight pick up in manufacturing client demand, as the overall upturn in new orders eased to a 24-month low. Meanwhile, new export sales rose at a marginal rate in April.

Inflationary pressures eased across both the manufacturing and service sectors. Input prices rose at the slowest pace since September 2016. Subsequently, firms increased their selling prices at a softer rate. Increased competition was also reportedly a factor behind the softest rise in output charges since October 2017.

Meanwhile, the expansion in overall employment was only modest overall and the slowest for two years. That said, private sector firms registered greater pressure on capacity with backlogs continuing to rise.

Finally, business expectations moderated across both the manufacturing and service sectors, sliding to the lowest since June 2016.

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

“The final PMI surveys for April indicate a marked slowing of the US economy at the start of the second quarter, suggesting the robust start to the year has lost some momentum. Businesses reported the weakest output and sales growth for two years, indicative of GDP growth slowing to 1.9% in April.

“While the first quarter saw factory weakness being offset by a robust service sector, both manufacturing and services have now shifted into a lower gear.

“An additional concern is that business optimism about the year ahead has slumped to its lowest since mid-2016, reflecting widespread reports from companies that weaker economic growth will likely further dampen business activity in coming months.

“Jobs growth has subsequently slipped to a two-year low as firms took a more cautious approach to hiring and expanding capacity in the face of the weaker sales growth and a gloomier outlook. Price pressures have fallen alongside the slower rate of economic growth signalled by the surveys, as firms struggled to raise prices amid intense competition.”
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.

April 2019 data were collected 10-25 April 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.