Services Business Activity Index
sa, >50 = growth since previous month

Business activity stabilizes but demand conditions deteriorate

Key findings

Reopening of firms leads to rise in Business Activity Index from June

New orders continue to fall slightly amid subdued demand

Input cost pressures intensify

July PMI™ data signalled a stabilization in business activity across the U.S. service sector as businesses continued to reopen following coronavirus disease 2019 (COVID-19) lockdowns in prior months. New orders declined at a slightly quicker rate, however, as domestic and foreign client demand remained muted, which was often attributed to ongoing virus-related restrictions. Nonetheless, operational restrictions led to constraints on capacity, with firms increasing their workforce numbers to process unfinished business. At the same time, output expectations improved to the strongest since March 2019 amid hopes of an end to lockdown measures over the longer term.

On the price front, input costs and output charges rose at sharper rates as there were some reports of PPE-related costs rising, and supplier price hikes were partially passed on to customers.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 50.0 at the start of the third quarter, up from 47.9 in June and improving on the 'flash' estimate of 49.6, to signal a stabilization in service sector business activity. The latest data brought to an end a five-month sequence of contraction, with the Business Activity index rising for a third successive month from April's record low (26.7). Although some firms remained closed or noted weak client demand and disrupted working practices due to the pandemic, others stated that the resumption of business had boosted output.

In contrast, new business continued to decrease in July. Service providers registered a marginal rate of decline which was slightly greater than seen in June. The drop in new order inflows was often linked to customer hesitancy and social distancing measures stemming from the COVID-19 pandemic. At the same time, foreign client demand softened following a fractional expansion in June. New export orders were broadly unchanged as firms continued to note difficulties attracting sales due to the pandemic.

Input costs at service providers rose for the second month running in July, with the rate of inflation accelerating to the sharpest since October 2018. The increase in cost burdens was commonly associated with supplier price hikes, with some highlighting greater costs for sanitising and PPE products especially.

In response, services firms raised their selling prices at the start of the third quarter, despite challenging demand conditions. The increase in output charges was the quickest since October 2018. Firms stated that higher output prices were linked to the partial pass-through of greater cost burdens.

Service providers recorded the first increase in employment since February in July, as pressure on capacity due to COVID-19 restrictions on business processes causing delays to the handling of order books. Although only marginal, the expansion in payroll numbers signalled a turnaround from the marked contractions seen in April and May. Backlogs of work rose marginally, but at the fastest pace for a year.

Finally, business confidence improved in July to the strongest since March 2019. Expectations were buoyed by hopes of a relaxation in lockdown measures and a return to pre-pandemic business practices over the next 12 months. That said, the degree of confidence was below the series average, as some remained concerned about the longevity of the pandemic.
Private sector output increased for the first time since the start of the year in July, largely driven by an expansion in manufacturing production. The IHS Markit Composite PMI Output Index* posted 50.3 at the start of the third quarter, up from 47.9 in June. The latest data signalled a fractional expansion in private sector business activity, but the first instance of growth since January.

The upturn was largely driven by the resumption of business at manufacturers and service providers, but new business continued to fall. The decrease in new orders quickened slightly despite an expansion in manufacturing client demand.

Private sector firms increased their workforce numbers in July. The rise in employment largely stemmed from an uptick in service sector staffing numbers as manufacturers reported a further fall. Growth in services jobs was often linked to capacity constraints as backlogs of work increased.

In contrast to the trend in client demand, firms expect output to rise over the coming year amid hopes of an end to the COVID-19 pandemic and an uptick in new sales.

Finally, private sector companies recorded faster increases in output charges and input costs as supplier price hikes were partially passed on to customers.

*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.

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

“The service sector is showing welcome signs of stabilizing after the unprecedented downturn seen during the second quarter, but many companies continue to struggle with virus-related constraints, especially in states where social distancing restrictions have been tightened again.

“The US was the only major economy to see COVID-19 containment measures tighten again in July, and this is reflected in the data, with new business inflows falling at an increased rate to hint at the possible start of a double-dip in business activity.

“More encouragingly, businesses have on balance become more optimistic about recovery in the year ahead, and took on extra staff to ensure capacity is sufficient to meet future growth. However, whether this optimism can be sustained and result in faster growth will of course depend on infection rates falling.”
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
July data were collected 13-28 July 2020.
Data collection began in October 2009.

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