

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 0945 (EST) / 1445 (UTC) January 26th 2017

Markit Flash U.S. Services PMI™

Service sector expands at fastest pace since November 2015

Key findings:

- Faster rises in business activity and new work
- Input cost inflation slows since December
- Service sector firms report strongest business outlook for just under two years

Data collected January 12-25

Service sector business activity (seasonally adjusted)

Markit US Services PMI Business Activity Index



Source: IHS Markit.

January data signalled a positive start to 2017 for the U.S. service sector. The latest survey revealed a robust expansion of business activity and another strong increase in incoming new work. Meanwhile, service providers were more upbeat about the business outlook than at any time since May 2015. Inflationary pressures eased since December, but were still among the highest seen over the past year-and-a-half.

Adjusted for seasonal influences, the **Markit Flash U.S. Services PMI™ Business Activity Index¹** picked up to 55.1 in January, from 53.9 in

December, which marked 11 months of sustained expansion. The latest reading also pointed to the fastest rate of business activity growth since November 2015. Anecdotal evidence suggested that stronger domestic demand and improving business confidence had led to a robust rise in service sector activity at the start of 2017.

Volumes of new work increased at a sharp and accelerated pace in January. The latest upturn in new business was one of the strongest since late-2015. Survey respondents commented on successful product launches, new marketing initiatives and generally improving client demand. A robust pace of new business growth contributed to sustained pressure on operating capacity in January, although the rate of backlog accumulation remained only marginal.

Improving demand patterns encouraged additional job creation across the service economy at the start of the year. The latest survey indicated a solid upturn in payroll numbers, although the rate of growth moderated from December's 15-month peak.

Stronger business confidence also underpinned the rise in employment levels during January. Service providers indicated that growth expectations for the next 12 months were the greatest since May 2015. Anecdotal evidence mainly cited expectations of improving domestic economic conditions.

Average cost burdens increased at a solid pace in January, with the rate of inflation down only slightly since the end of 2016. Survey respondents commented on higher fuel costs and increased staff salaries. Meanwhile, average prices charged by service providers also rose at the start of the year, but the rate of inflation was only moderate.

Markit Flash U.S. Composite PMI™

The seasonally adjusted **Markit Flash U.S. Composite PMI Output Index** picked up to 55.4 in January, from 54.1 in December, thereby signalling

¹ Please note that Markit's PMI data, flash and final, are derived from information collected by Markit from a different panel of companies to those that participate in the ISM Non-Manufacturing Report on Business. No information from the ISM survey is used in the production of Markit's PMI.

a robust and accelerated expansion of U.S. private sector output. Mirroring the trend for the service economy, the latest figure indicated the fastest rate of growth since November 2015.

Manufacturing production expanded at the steepest rate since March 2015 ('flash' output index at 56.7), which exceeded the growth patterns seen across the service economy ('flash' index at 55.1).

The composite index is based on original survey data from the Markit U.S. Services PMI and the Markit U.S. Manufacturing PMI.

Comment

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

"The improvement in service sector business conditions follows the news earlier in the week that manufacturing also enjoyed a bumper start to the year. The two PMI surveys collectively point to the economy growing at an annualised rate of just over 2.5% in January, and puts the US on a strong footing to achieve faster growth in 2017. IHS Markit currently forecasts that the US economy will grow by 2.3% in 2017, up from 1.6% in 2016.

"Although the strong dollar is hitting exports, domestic demand clearly remains buoyant. Companies reported one of the highest inflows of new business for a year and a half as demand lifted higher at the start of 2017.

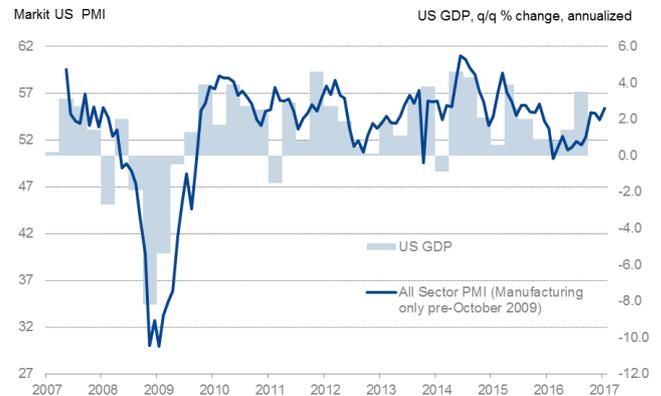
"Job creation also remained encouragingly solid, and especially impressive given current high overall levels of employment in the economy.

"Job gains are linked to increased optimism about the economic outlook. Business expectations of future growth are at their highest for just over one and a half years.

"The strong start to 2017 and bullish mood for the year ahead adds to our expectation that we will see the Fed hike rates a further three times in 2017."

-Ends-

Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis.

For further information, please contact:**IHS Markit**

Tim Moore, Senior Economist
Telephone +44-1491-461-067
Email tim.moore@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44207 260 2234
E-mail joanna.vickers@ihsmarkit.com

Note to Editors:

Final January data are published on February 3rd 2017.

The U.S. Services *PMI*™ (*Purchasing Managers' Index*™) is produced by Markit and is based on original survey data collected from a representative panel of over 400 companies based in the U.S. service sector. Markit originally began collecting monthly PMI data in the U.S. service sector in October 2009.

The flash estimate is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final *PMI* data.

The Markit U.S. Services PMI complements the Markit U.S. Manufacturing PMI and enables the production of the Markit U.S. Composite PMI which tracks business trends across both the manufacturing and service sectors, based on original survey data collected from a representative panel of over 1,000 companies.

The panel is stratified by North American Industrial Classification System (NAICS) group and company size, based on industry contribution to U.S. GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@ihsmarkit.com.

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