

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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IHS Markit U.S. Services PMI™ – final data (with composite PMI™)

Service sector business activity growth remains strong in October

Key findings:

- Output growth in line with that seen in September
- Upturn in new business softens to six-month low
- Input price inflation eases to seven-month low

Data collected October 12-26

Service sector business activity (seasonally adjusted)



Source: IHS Markit.

October survey data indicated a further rise in business activity across the US service sector. The rate of expansion was in line with that seen in September and strong overall. New business, however, grew at a weaker pace and signalled the softest upturn since April. Meanwhile, employment levels expanded at a solid rate, and backlogs also continued to rise. On the prices front, input costs and output charges rose further but eased to seven- and six-month lows, respectively. The latest survey data signalled robust business confidence, with the degree of optimism rising from that seen in

September.

The seasonally adjusted **IHS Markit U.S. Services Business Activity Index** registered 55.3 in October, unchanged from that seen in September. The latest index figure indicated a strong increase in overall business activity across the US service sector. Moreover, the rate of expansion was slightly faster than the long-run series average. Anecdotal evidence linked the rise in output to robust client demand and more favourable business conditions.

New business received by service providers continued to rise in October. A number of survey respondents noted that the increase was due to stronger business investment. That said, the pace of the expansion eased to a six-month low.

Operating costs increased further in October, but the rate of inflation softened to the slowest since March. Panellists stated that inflation was underpinned by higher raw material and transportation costs, with some linking this to the continued disruption from of the recent hurricanes.

Subsequently, firms sought to pass higher costs onto clients through a rise in average prices charged. Some monitored companies suggested that resilient demand conditions enabled the increase in output prices. That said, the pace of inflation eased to a six-month low.

Meanwhile, workforce numbers grew at a solid rate that had accelerated from that seen in the previous survey period. Job creation was linked to greater business requirements and rising client demand.

Backlog accumulation, however, softened to a four-month low. Notably, the rate of growth in outstanding business was only fractional overall.

Business expectations among service providers remained robust in October, with monitored firms reporting a stronger degree of confidence than in September. Panellists attributed this to more favourable market conditions and higher client demand.

IHS Markit Final U.S. Composite PMI™

The final seasonally adjusted **IHS Markit U.S. Composite PMI™ Output Index** rose to 55.2 in October, up from 54.8 in September. An accelerated upturn in manufacturing production, and strong growth in service sector business activity supported a steep overall expansion.

The latest composite figure also signalled the second-fastest upturn since January.

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

Comment

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

“The services PMI survey highlights the dilemma facing the Fed as it seeks to determine the right policy course amid signs of solid growth but soft inflation.

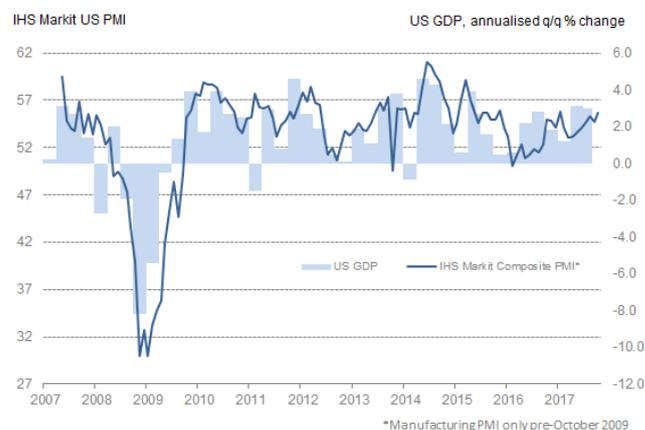
“Together with the manufacturing PMI, which rose higher in October as hurricane-related supply chain disruptions eased, the latest services survey is consistent with underlying growth in the economy of approximately 3%, as well as buoyant jobs growth.

“With the data for October setting the scene for another robust GDP increase in the fourth quarter, a December rate hike is very much on the cards.

“However, a drop in inflationary pressures adds an element uncertainty to the picture. Having been buoyed by supply chain disruptions in prior months, input cost pressures eased at the start of the fourth quarter, and the rate of increase of average prices charged for goods and services dropped markedly.

“While the Fed may likely tilt towards hiking in December on the back of robust economic growth, much may depend on the data flow in coming weeks for signs that stronger growth is feeding through to higher prices.”

IHS Markit Composite PMI and U.S. GDP



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

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Note to Editors:

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

The final U.S. Services PMI follows on from the flash estimate which 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 IHS Markit U.S. Services PMI complements the IHS Markit U.S. Manufacturing PMI and enables the production of the IHS 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.

IHS 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 IHS Markit. Please contact economics@ihsmarkit.com.

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