

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

Business activity growth eases to six-month low in August

Key findings:

- Marginal expansion of service sector activity
- New business growth remains subdued
- Payroll numbers rise at weakest pace since December 2014

Data collected August 12-25

Service sector business activity (seasonally adjusted)



Source: IHS Markit.

August data indicated that the U.S. service sector continued to struggle for momentum, with both business activity and incoming new work expanding at slightly slower rates than in the previous month. This contributed to a moderation in job creation to its weakest since December 2014. Meanwhile, service providers are upbeat overall about the 12-month outlook for business activity, and the degree of positive sentiment remained comfortably above the survey-record low seen in June.

At 51.0 in August, the seasonally adjusted **Markit final U.S. Services Business Activity Index** dropped from 51.4 in July but remained above the 50.0 no-change value for the sixth consecutive month. The latest reading signalled only a marginal

increase in business activity, and the pace of expansion was the weakest seen since the upturn began in March. Survey respondents noted that relatively subdued client demand and uncertainty ahead of the presidential election had acted as growth headwinds in August.

Service providers reported a moderate rise in new business volumes in August, with the pace of expansion remaining weaker than the average seen since the survey began in late-2009. Subdued demand patterns resulted in a renewed slowdown in employment growth during August. The latest survey marked six-and-a-half years of sustained job creation, but the latest rise in payroll numbers was the weakest since the end of 2014.

Some firms noted that more cautious staff hiring policies had placed pressure on operating capacity in August. Reflecting this, backlogs of work increased for the second month running and at the most marked pace since April 2015.

The latest survey highlighted that business confidence across the service economy remained well above the survey-record low seen in June. However, the level of optimism was weaker than the post-crisis trend, which firms linked to heightened economic uncertainty and generally subdued client demand. Companies expecting a rise in activity over the next 12 months mainly cited new product launches and hopes of a rebound in business conditions after the presidential election.

On the prices front, August data pointed to another moderate rise in average cost burdens. The rate of inflation was little-changed since July and below the survey average. Meanwhile, prices charged by service providers increased only marginally in August, which firms mainly attributed to strong competition for new work.

Markit Final U.S. Composite PMI™

Adjusted for seasonal influences, the **Markit final U.S. Composite PMI™ Output Index** registered

51.5 in August, down slightly from 51.8 in July. The latest reading signalled a marginal expansion of private sector activity and was in line with the average recorded in 2016 so far.

Manufacturing production growth was unchanged from July's eight-month high (index at 53.8), and the pace of expansion remained faster than that seen for services activity (51.0).

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

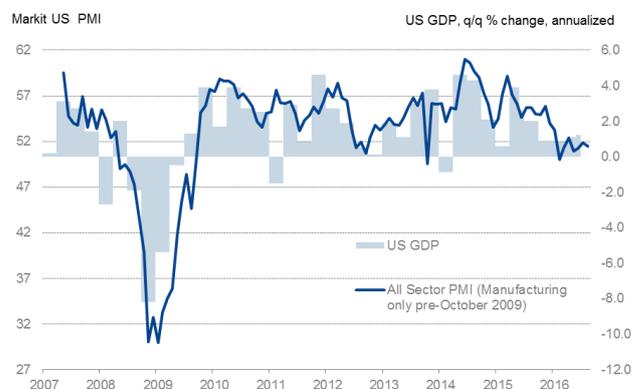
Comment

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

"The weak PMI readings send a downbeat note on economic growth in the third quarter. Taken together, the manufacturing and services PMIs are pointing to an annualised GDP growth rate of a mere 1%, similar to the subdued pace signalled by the surveys throughout the year to date, suggesting that those looking for a strengthening in the rate of economic growth will be disappointed once again.

"With non-farm payroll growth also showing signs of waning in line with the surveys' employment indicators in August and inflationary pressures remaining subdued, the data flow is leaning towards the Fed staying in "wait and see" mode at its September meeting.

"The slow pace of growth and weak hiring was in turn often linked by companies to growing uncertainty about the economic outlook as the presidential election approaches, suggesting growth could pick up again later in the year."



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

Markit Composite PMI and U.S. GDP

-Ends-

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Note to Editors:

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 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 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@markit.com.

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