

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

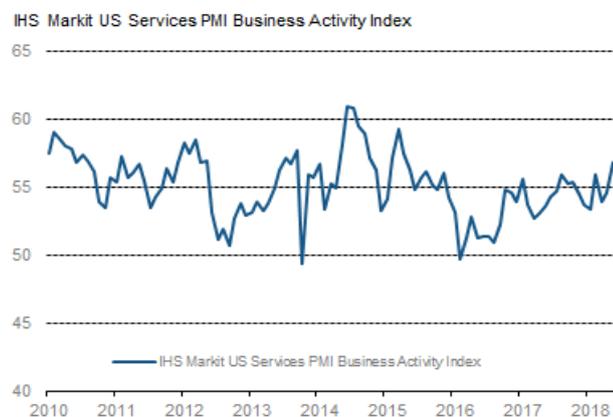
Services business activity growth accelerates to fastest since April 2015

Key findings:

- Output growth quickens to strongest in over three years
- Capacity pressures intensify
- Input price inflation fastest since October 2013

Data collected May 11-25

Service sector business activity (seasonally adjusted)



Source: IHS Markit.

According to the latest survey data, business activity increased at a sharp rate across the U.S. service sector in May. Although the pace of new business growth softened slightly, it remained among the fastest in the last three years. Backlogs of work meanwhile accumulated at the quickest pace in over three years, prompting companies to boost capacity by upping the rate of job creation to the strongest since September 2015. The survey also showed rates of both input cost and selling price inflation accelerating.

The seasonally adjusted final **IHS Markit U.S. Services Business Activity Index** registered 56.8

in May, up from 54.6 in April. The latest survey data signalled the fastest output expansion since April 2015. The sharp increase in business activity was widely attributed to more favourable economic conditions and greater client demand. Increased marketing activity and customer interest was successfully converted to client wins in May, with new business levels rising at a steep pace. Although slightly weaker than that seen in April, the rate of expansion of new work was the third-sharpest seen over the past three years.

In line with sustained upturns in business activity and new orders, service sector firms increased their hiring in May. The upturn in staffing levels was the strongest since September 2015 and above the long-run series average.

A pick-up in job creation was not sufficient to prevent a further rise in backlogs, however. Faster rises in new business compared to output drove a solid increase in outstanding business in May. Backlogs were accumulated for the thirteenth consecutive month and the latest backlogs growth rate was the quickest in over three years. Panellists also noted that difficulties in sourcing raw materials delayed business processes.

Inflationary pressures intensified in May, as input cost inflation accelerated to the fastest since October 2013. Anecdotal evidence suggested the latest rise in cost burdens was due to higher material inputs, often linked to tariffs, higher interest rates and rising energy and fuel prices.

Output charges also increased at a quicker rate, with inflation accelerating to a three-month high. Panellists stated that higher input costs were partly passed on to clients through greater charges. The

strong pace of inflation was above the long-run series average.

Finally, business confidence remained robust in May, despite dipping from April's recent peak. Panellists suggested optimism stemmed from planned investment in expansion and more favourable demand conditions.

IHS Markit Final U.S. Composite PMI™

The final seasonally adjusted **IHS Markit U.S. Composite PMI™ Output Index** rose to 56.6 in May from 54.9 in April. The quicker overall upturn was driven by stronger growth in the services sector.

The latest composite index reading signalled a pick-up in growth momentum and the fastest expansion since April 2015.

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:

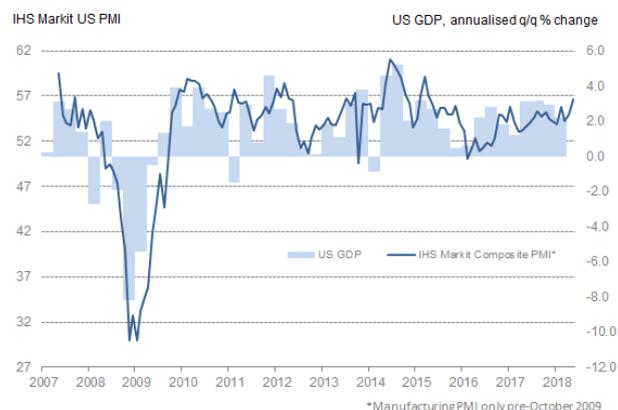
“The US economy kicked up a gear in May. A markedly improved service sector performance takes the final composite PMI reading above the flash estimate and to its highest for over three years. The composite PMI is a reliable leading indicator of GDP, and has risen to a level which is consistent with the economy growing at an annualised rate of approximately 3.5%.

“With business optimism about the year ahead running at one of the highest levels seen over the past three years, it looks likely that good growth momentum will be sustained in coming months.

“However, the survey also reveals increased concerns regarding rising costs and the impact of tariffs. Across both manufacturing and services, companies’ costs are now rising at one of the strongest rates seen over the past seven years, which will likely feed through to higher consumer prices in coming months.”

-Ends-

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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