IHS Markit U.S. Services PMI™ – final data (with composite PMI™)

Service sector activity growth dips to eight-month low

Key findings:
- Business activity expands at weaker pace
- Prices charged inflation at record high
- The pace of job creation at joint-fastest since June 2014

Data collected September 12-25

Service sector business activity (seasonally adjusted)

The seasonally adjusted final IHS Markit U.S. Services Business Activity Index registered 53.5 in September, down from 54.8 in August. The latest figure indicated the weakest growth since January, with the rate of expansion softening for the fourth month running. Nonetheless, the average for the third quarter of 2018 was strong overall. Anecdotal evidence cited greater demand, however, some clients were apprehensive due to reports of a sluggish housing market.

Reassuringly, the rate of new business growth picked up in September, moving closer to the strength seen earlier in the year. The sharp upturn in new orders was commonly attributed to improved client demand.

In line with a stronger rise in new business, capacity pressures increased in September. Service providers suggested greater business requirements drove job creation, extending the current sequence of employment growth that began in March 2010. Notably, hiring increased at the joint-quickest rate since June 2014.

Backlogs also rose, ending a two-month period of contraction. Moreover, the level of outstanding business increased solidly, with companies noting that new order growth outpaced that of output.

Greater demand for inputs and the ongoing effects of tariffs were widely cited as factors behind a stronger rise in input prices in September. Moreover, the rate of inflation was steep and accelerated from August’s recent low.

Subsequently, output prices charged by service providers continued to rise in September. The pace of selling price inflation accelerated to the fastest in the nine-year series history.
Finally, business confidence towards the year-ahead output outlook remained subdued. Optimism was well below the series trend and at its weakest since December 2017. Concerns were largely linked to competition for new work, despite favourable demand conditions.

**IHS Markit Final U.S. Composite PMI™**

At 53.9 in September, the final seasonally adjusted IHS Markit U.S. Composite PMI™ Output Index dipped from 54.7 in August. The overall expansion was solid but eased to the weakest since January. While the average for the third quarter of 2018 remained strong, the data point to a slower rate of economic expansion than the second quarter.

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:

“Service sector business growth has eased considerably since peaking back in May, but remains relatively solid. Some of the slowdown can be traced to capacity constraints, with new business once again rising at a steeper rate than firms were able to boost output.

“Combined with the manufacturing results, the September survey adds to signs that the pace of economic growth cooled to the lowest since January but continued to run close to a 3% annualised rate over the third quarter as a whole.

“Firms are hiring in increasing numbers to expand capacity, with the employment index from the manufacturing and services surveys rising to a level indicative of a further non-farm payroll rise in excess of 200,000.

“However, despite the increase in employment, many companies are clearly still struggling to meet demand, with strong inflows of new business causing backlogs of work to accumulate across the economy at one of the fastest rates seen since 2014.

“The combination of reduced spare capacity and robust domestic demand is driving prices charged for goods and services higher at a rate not seen since the global financial crisis.”

-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 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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