

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

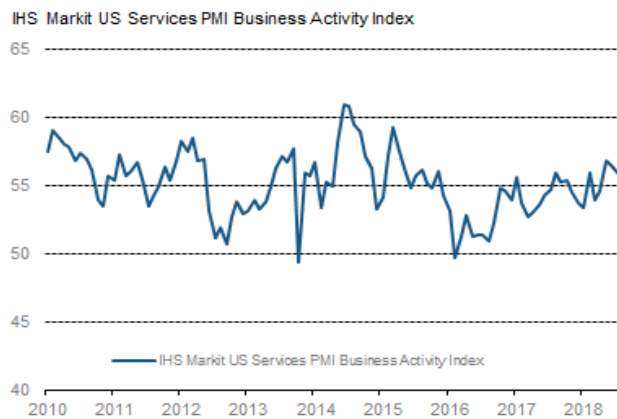
Service sector business activity growth remains sharp, but prices charged rise at fastest rate in almost four years

Key findings:

- Business activity upturn one of the strongest in last three years
- New business expands at weakest rate for six months
- Input price inflation eases, but charges rise at accelerated pace

Data collected July 12-26

Service sector business activity (seasonally adjusted)



Source: IHS Markit.

July survey data signalled a further robust increase in business activity across the U.S. service sector. Although the latest upturn eased to a three-month low, it was sharp nonetheless and one of the fastest in the last three years. Similarly, the rate of new business growth softened to the weakest in six months, but remained steep overall. Backlogs contracted for the first time since April 2017, as strong employment growth reduced pressure on capacity. Meanwhile, output charge inflation

accelerated on the back of strong demand and higher input costs.

The seasonally adjusted final **IHS Markit U.S. Services Business Activity Index** registered 56.0 in July, down from 56.5 in June. The rise in output was steep overall, despite softening to the weakest since April. Where an increase in business activity was reported, panellists linked this to favourable demand conditions and more robust client demand. Although the rate of growth eased from recent peaks, it remained one of the fastest in the last three years.

New business also grew sharply in July, albeit at a slightly softer rate. The pace of increase eased for the third successive month to the slowest since January, but remained well above the trend seen in 2017. Respondents suggested robust client demand and the release of new business lines drove the expansion.

On the price front, input cost inflation softened to a three-month low in July. The rate of increase was, however, sharp and well above the series trend. Panellists suggested that higher prices for fuel, steel and electronics were particularly notable. Others also cited greater wage and transportation bills as driving the rise in cost burdens.

Meanwhile, robust demand conditions led to a steep rise in average charges. The rate of inflation accelerated to the quickest since September 2014 as firms partly passed on higher costs to clients.

In line with a slightly weaker rise in output, capacity was placed under less strain. Employment growth eased to a five-month low, with the rise in staffing numbers tempered by difficulties finding suitable

candidates for vacancies. Although only fractional, the contraction in outstanding business was the first since April 2017 and signalled a turnaround from the moderate expansion seen in June.

Business confidence eased to a six-month low and was subdued in the context of the series history, with some service providers raising concerns surrounding tariffs and their effects on client demand.

IHS Markit Final U.S. Composite PMI™

At 55.7 in July, the final seasonally adjusted IHS Markit U.S. Composite PMI™ Output Index dipped slightly from 56.2 in June. Despite the rate of expansion easing to a three-month low, it remained strong in the context of the series history.

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, **Tim Moore, Associate Director at IHS Markit** said:

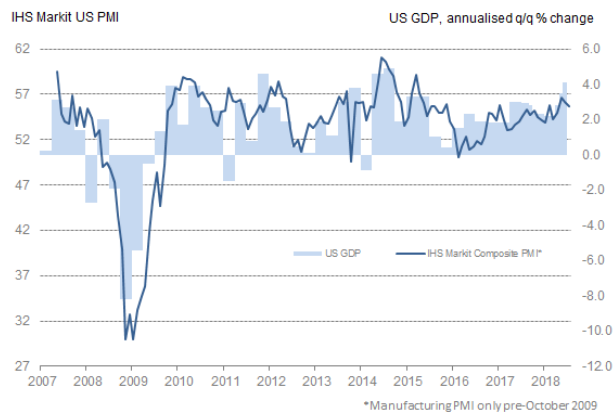
“US service providers experienced strong growth conditions at the start of the third quarter, with business activity rising at only a slightly softer pace than in June. Strong domestic demand helped to support another improvement in new order levels and a solid expansion of payroll numbers in July.

“However, business expectations across the service economy edged down to a six-month low. Survey respondents cited concerns about rising costs and trade frictions, alongside difficulties sustaining the tempo of new business growth seen in the second quarter of 2018.

“Rising operating expenses continued to place pressure on margins in the service economy, partly reflecting higher wages and fuel bills in July. There were signs that higher input costs have started to shift through to consumers, as service providers recorded the fastest increase in their average prices charged since September 2014.”

-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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