

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

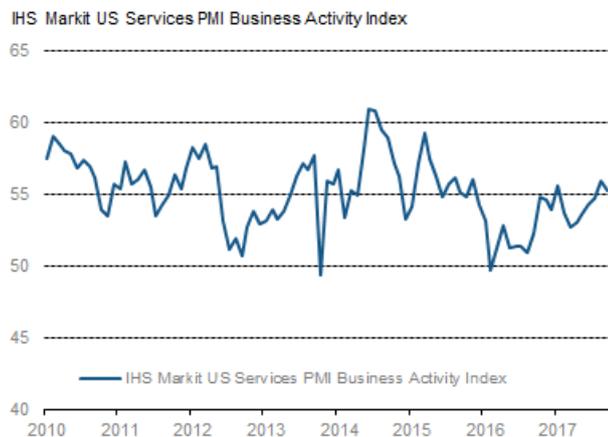
Service sector business activity growth remains strong in September

Key findings:

- PMI signals robust expansion in business activity
- Upturn in new business remains steep despite easing since August
- Inflationary pressures intensify

Data collected September 12-26

Service sector business activity (seasonally adjusted)



Source: IHS Markit.

September survey data signalled a further rise in business activity across the US service sector. Although the rate of growth eased slightly compared with August, upturns in both activity and inflows of new work were strong compared to the average seen over the past two years. Sustained growth of output and new orders supported solid increases in staffing levels. Additional payroll numbers helped to alleviate capacity pressures.

Meanwhile, inflationary pressures continued to intensify. Input price inflation was the fastest since June 2015, and charge inflation accelerated to the quickest in three years.

The seasonally adjusted **IHS Markit U.S. Services Business Activity Index** registered 55.3 in September, down slightly from 56.0 in August. This indicated a strong end to the third quarter, and the fastest average quarterly growth so far this year. A number of survey respondents linked the rise in business activity to strong client demand in domestic markets.

New business received by service sector firms expanded further in September. Despite the pace of growth easing slightly from August's 25-month high, it remained solid. Anecdotal evidence suggested that higher new orders were fueled by new product development and robust client demand.

On the price front, the rates of both input cost and output charge inflation accelerated in September. Cost burdens faced by service providers increased at the fastest pace since June 2015. A number of companies attributed the rise to recent hurricanes, which impacted energy, fuel and raw material prices. Average charges increased further, with inflation accelerating slightly to reach the quickest since September 2014.

Employment growth in the service sector was solid in September, albeit easing to a three-month low. Service providers stated that staffing levels had risen due to a sustained increase in overall activity and resulting pressures on capacity. Notably, backlog accumulation also softened to a marginal rate.

Activity expectations for the upcoming 12 months were robust in September, but the degree of optimism slipped to the lowest in seven months. Service sector firms noted that positive sentiment was linked to new business growth, although some

respondents noted that there was heightened uncertainty surrounding future economic conditions.

IHS Markit Final U.S. Composite PMI™

The final seasonally adjusted **IHS Markit U.S. Composite PMI™ Output Index** fell to 54.8 in September, from 55.3 in August. The slower services sector expansion was accompanied by further subdued manufacturing output growth, with the rate of increase unchanged on August's 14-month low.

Despite easing since August, the average composite reading over the past three months signalled the fastest overall quarterly growth in 2017 so far.

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:

“Given the disruption caused by recent hurricanes, some pull-back in business activity was understandable, so the resilient reading of the September services PMI makes for encouraging reading.

“Looked at alongside the manufacturing PMI, the survey data point to GDP rising at an annualised rate of just over 2% in the third quarter. Growth is largely reliant on the services economy, however, as manufacturing lags behind, struggling in part due to the strong dollar.

“While rebuilding and a return to normal business conditions after the hurricanes will hopefully boost growth in the fourth quarter, it's worrying to see business expectations about activity levels over the coming year drop in September. Measured across both manufacturing and services, future optimism is at its lowest since February, suggesting companies have become increasingly cautious about the outlook.

“However, while optimism has slipped, the ‘hard’

survey data on recent output, new orders and hiring trends remain solid. Combined with the further upturn in price pressures seen in September, the survey data will further fuel expectations that the Fed will be keen to hike interest rates again before the year is out. Average prices charged for goods and services rose at the fastest rate for three years in September, though it's not yet clear how much of the rise reflected short-term hurricane effects.”

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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