

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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Markit Flash U.S. Services PMI™

Service sector activity expands at fastest pace since November 2015

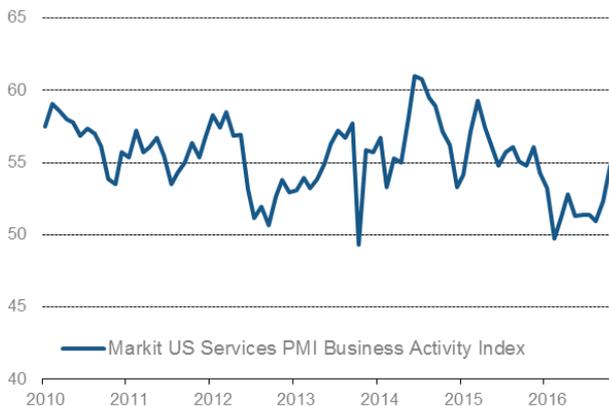
Key findings:

- Business activity increases at a robust and accelerated pace in October
- New order volumes rise at quickest rate seen so far in 2016
- Service providers report strongest business optimism since August 2015

Data collected October 12-25

Service sector business activity (seasonally adjusted)

Markit US Services PMI Business Activity Index



Source: IHS Markit.

October data pointed to a marked improvement in growth momentum across the U.S. service sector. Business activity and incoming new work both expanded at the fastest pace for 11 months. The latest survey also revealed an upturn in confidence towards the year-ahead business outlook, with service providers reporting the strongest optimism since August 2015.

Input cost pressures meanwhile picked up from the 19-month low recorded in September, which contributed to a slightly faster rise in prices charged by service sector companies during October.

At 54.8, up from 52.3 in September, the seasonally

adjusted **Markit Flash U.S. Services PMI™ Business Activity Index**¹ signalled a robust expansion of service sector output in October. The latest reading was the highest since November 2015 and contrasted with the subdued growth patterns seen through the third quarter of 2016 (index at 51.5 on average).

Service providers noted that supportive domestic economic conditions and an improvement in clients' willingness to spend had underpinned the latest upturn in business activity. Reflecting this, **new order growth** also accelerated for the first time in three months and was the fastest since November 2015. Some survey respondents commented on greater business optimism and a corresponding rise in investment spending among clients.

Higher levels of incoming new work resulted in a further rise in **unfinished business** at service sector companies during October. Although only modest, the rate of backlog accumulation was the joint-fastest recorded since April 2015.

Despite stronger business activity growth, service providers indicated that cautious **staff hiring** patterns persisted in October. Measured overall, job creation picked up only slightly from the three-and-a-half year low recorded in September. While some firms sought to boost their payroll numbers in response to rising workloads, there were also reports that efforts to reduce costs had led to the non-replacement of voluntary leavers.

Service sector companies reported a solid increase in their average **cost burdens** during October. The rate of input price inflation was the fastest since May, but still weaker than seen on average since the survey began in late-2009. At the same time,

¹ Please note that Markit's PMI data, flash and final, are derived from information collected by Markit from a different panel of companies to those that participate in the ISM Non-Manufacturing Report on Business. No information from the ISM survey is used in the production of Markit's PMI.

service providers recorded a moderate rise in their average **prices charged**, with the pace of inflation edging up to its strongest since November 2015.

Meanwhile, **business optimism** across the service economy picked up sharply during October, which resumed the general upward trend seen since the index hit a post-crisis low in June. The latest reading signalled the greatest degree of confidence about the 12-month business outlook since August 2015. Anecdotal evidence suggested that hopes of an improvement in U.S. economic conditions, alongside recent signs of a recovery in client spending, had contributed to an upturn in business confidence during October.

Markit Flash U.S. Composite PMI™

The seasonally adjusted **Markit Flash U.S. Composite PMI Output Index** registered 54.9 in October, up from 52.3 in September and above the 50.0 no-change value for the eighth month running. Moreover, the latest reading pointed to the sharpest expansion of private sector output since November 2015.

Stronger growth was recorded by both **manufacturing** firms and **services** companies in October. The latest upturn in manufacturing production ('flash' output index at 55.3) was slightly faster than the rate of activity growth seen across the service sector ('flash' index at 54.8).

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 flash PMI data, Tim Moore, Senior Economist at IHS Markit said:

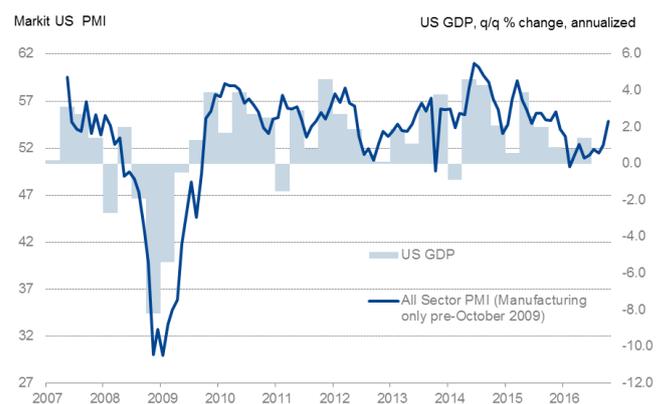
"The latest survey data reveal a decisive shift in growth momentum across the U.S. service sector, which mirrors the more robust manufacturing performance seen during October. Taken together, the 'flash' PMIs suggest that the economy is growing at an annualized rate of around 2% at the start of the fourth quarter.

"Service providers experienced the fastest upturn in new business volumes since late-2015, which survey respondents linked to improving domestic economic conditions and signs of greater business investment in particular. That said, job creation remained relatively subdued in October, with firms reporting cautious hiring plans and efforts to alleviate pressures on margins.

"October's survey findings contained positive signs for near-term growth prospects, with service sector companies the most upbeat about the business outlook since August 2015. Moreover, the month-to-month rise in this index was one of the largest seen over the past two years."

-Ends-

Markit Composite PMI and U.S. GDP



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

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Note to Editors:

Final October data are published on November 3rd 2016.

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 flash estimate 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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