News Release

Embargoed until 0945 EST (1445 UTC) 5 March 2019

IHS MARKIT US SERVICES PMI™

INCLUDING IHS MARKIT US COMPOSITE PMI™

Business activity growth accelerates to seven-month high in February

KEY FINDINGS

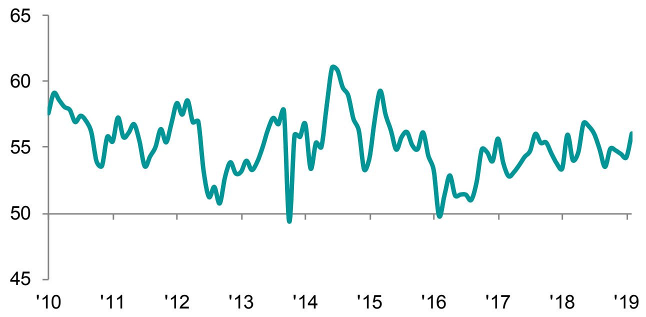
Output increases at sharp rate

New business expansion also picks up pace

Faster rises in employment and backlogs highlight strain on capacity

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

Business activity across the U.S. service sector continued to improve in February, with the rate of expansion quickening to the fastest since July 2018. The rise in output was supported by a sharp increase in new business and a return to growth in new export orders. Moreover, foreign demand rose at the strongest rate since last May. Subsequently, pressure was placed on capacity and led to the fastest rise in outstanding business for nine months. In expectation of further new order growth and in an effort to clear backlogs, the pace of job creation reached a five-month high and was strong overall. That said, service providers were less upbeat towards the year-ahead outlook for business activity.

The seasonally adjusted final IHS Markit U.S. Services Business Activity Index registered 56.0 in February, up from 54.2 in January and broadly in line with the earlier released 'flash' figure of 56.2. The rise in business activity was the quickest since last July and above the long-run series trend. Panellists reported that greater client demand and favourable economic conditions were key driving factors behind the upturn.

At the same time, service providers registered a faster increase in new business in February. More robust client demand and the opening of new facilities were commonly mentioned as contributing factors to the latest rise. The expansion was the strongest since last October and historically sharp. Firms also reported a return to growth in new export orders following a two-month sequence of decline. Furthermore, the pace of increase was the fastest for nine months and well above the series average.

In line with a stronger rise in new business, firms were required to take on more staff in February amid strains on capacity. The rate of job creation was the quickest for five months and accelerated significantly from that seen in January. At the same time, backlogs of work increased for the second successive month and to the greatest extent since May 2018.

Meanwhile, inflationary pressures picked up in February, with service providers registering faster rises in both input prices and output charges. The strong increase in cost burdens was largely linked to higher raw material and fuel prices, tariffs and higher interest rates. The rate of input cost inflation accelerated from January's 22-month low and was the quickest since last November. Firms reportedly sought to pass greater cost burdens on to clients through increased output prices. The rate of charge inflation quickened for the second month running as more favourable demand conditions allowed companies to raise prices.

Service sector firms remained optimistic in February. The degree of confidence was, however, weaker than that seen in January and historically subdued. Although service providers commented on the strength of client demand, others highlighted concerns around the sustainability of new business growth.

IHS MARKIT US COMPOSITE PMI™

Composite output growth reaches seven-month high in February

Composite Output Index

sa, >50 = growth since previous month

Source: IHS Markit

Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

The US Composite PMI Output Index is a weighted average of the US Manufacturing PMI Output Index and the US Services Business Activity Index. The Composite PMI Output Index registered 55.5 in February, up from 54.4 in January. The faster overall expansion was driven by a quicker upturn in business activity in the service sector, counteracting the slowdown in manufacturing output.

Similarly, composite new business increased at the strongest rate for four months amid a quicker rise in new orders at service providers. Manufacturing firms registered a slower rise in new business. Nevertheless, new export orders received by both manufacturing and service sector firms picked up in February, with service providers registering a return to growth in foreign demand.

Inflationary pressures were relatively subdued in February compared to those seen throughout 2018. Rates of input price and output charge inflation were strong overall and accelerated from those seen in January.

Meanwhile, a quicker overall output expansion led firms to increase their workforce numbers at a more robust rate. The pace of job creation was the strongest since September 2018.

A slight reduction in optimism across both the manufacturing and service sectors resulted in a lower degree of overall confidence towards future output in February.

COMMENT

Commenting on the PMI data, Chris Williamson, Chief Business Economist at IHS Markit said:

“The US PMI surveys tell a tale of two economies in February, with any slowdown story confined to the goods-producing sector. While manufacturing struggled, with the surveys consistent with a near-stalling of factory output and order books, the service sector remained encouragingly resilient, enjoying its strongest burst of activity for seven months.

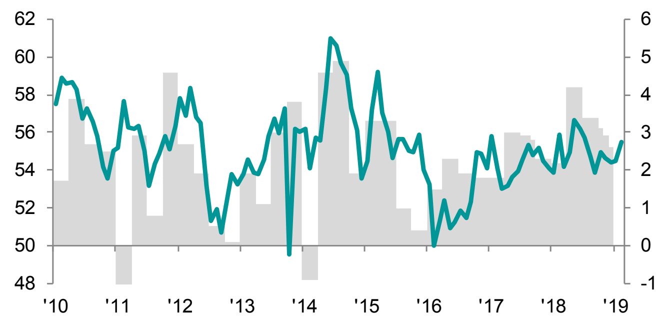
With the size of the vast service sector overshadowing the manufacturing sector, the two surveys suggest the overall pace of economic growth accelerated in February. Having correctly indicated that the economy grew at a slower but still solid pace in the fourth quarter (our model from the survey indicated 2.5% growth against an initial official estimate of 2.6%), the data for the first two months of 2019 point to a similar 2.6% annualised rate of expansion.

In addition to signalling stronger economic growth, the surveys suggest hiring also remained encouragingly solid in February with a 250,000 non-farm payroll rise indicated, albeit predominantly driven by the service sector.

The worry is that the manufacturing slowdown will spill over to the service sector, damping economic growth in coming months. Companies themselves certainly appear to have become more circumspect, with business optimism cooling in February amid worries over the impact of tariffs, trade wars, higher prices and rising interest rates.”

Composite Output Index | Gross Domestic Product (GDP)

sa, >50 = growth since previous month | %qr/qr, annualised



Sources: IHS Markit, Bureau of Economic Analysis.

CONTACT

IHS Markit

Chris Williamson
Chief Business Economist
T: +44-207 260 2329
chris.williamson@ihsmarkit.com

Siân Jones
Economist
T: +44-1491-461-017
sian.jones@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

Methodology

The IHS Markit US Services PMI™ is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

February 2019 data were collected 12-25 February 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About IHS Markit

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.