

Embargoed until 0945 EST (1445 UTC) 03 March 2022

IHS Markit US Services PMI™

Including IHS Markit US Composite PMI™

Sharp upturn in activity amid stronger demand conditions, but selling price inflation reaches new high

Key findings

New business growth accelerates to seven-month high

Output charges rise at fastest pace on record

Rate of job creation quickens to sharpest since May 2021

Data were collected 10-23 February 2022.

Business activity across the US service sector increased sharply in February, according to the latest PMI™ data. The faster rise in output was supported by the steepest upturn in new sales for seven months. Total new orders were also aided by a solid increase in foreign client demand. In line with improved demand conditions, firms expanded their workforce numbers at the fastest pace since last May. At the same time, business confidence was buoyed by new opportunities for growth following the easing of COVID-19 restrictions, with the degree of optimism reaching the strongest since November 2020.

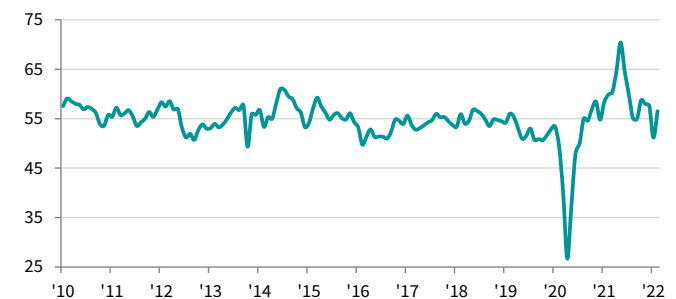
On the price front, inflationary pressures intensified again in February. In response to another marked rise in input costs, firms hiked their selling prices at the fastest rate on record.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 56.5 in February, up notably from 51.2 in January and down only slightly on the earlier released 'flash' estimate of 56.7. The steep expansion in service sector business activity was reportedly indicative of stronger demand conditions and a quicker rise in new orders as the Omicron wave of COVID-19 slowed. Although softer than the peaks seen in 2021, the rate of output growth was historically elevated.

Supporting the overall upturn in output was the fastest increase in new business for seven months. Service providers largely attributed the expansion to greater demand from new and existing customers, with some noting an uptick in advanced ordering due to material and labor shortages.

Concurrently, foreign client demand picked up. The rise in new export orders was the steepest since last June and solid overall. Survey respondents reported that easing travel restrictions had

US Services PMI Business Activity Index
sa, >50 = growth since previous month



Source: IHS Markit.

aided growth.

Meanwhile, output charges increased at the sharpest pace since data collection began in October 2009. Service sector firms reacted to another substantial hike in cost burdens by passing through greater input prices to customers where possible. The rate of cost inflation accelerated amid higher material, transportation, fuel and labour bills.

Greater new orders led to a steeper upturn in workforce numbers midway through the opening quarter of 2022. Firms were also keen to clear backlogs of work, which continued to expand. The rate of job creation was strong overall and quickened to the sharpest since last May.

Although the rate of growth in backlogs of work eased for the fourth successive month to the slowest since May 2021, it was still quicker than the series trend. Ongoing supply chain disruptions and challenges in hiring and retaining staff stymied efforts to clear outstanding business.

Increased staffing numbers reflected a wider trend of greater optimism among service sector firms during February. The degree of confidence in the outlook regarding output for the coming year was the highest since November 2020. Alongside hopes of further upticks in client demand, companies noted that opportunities for growth are likely to increase following the easing of travel restrictions and the waning impact of the Omicron wave of COVID-19.

IHS Markit US Composite PMI®

Faster private sector output expansion in February amid broad-based pick-up in demand

The IHS Markit US Composite PMI Output Index* posted 55.9 in February, up from January's Omicron-induced low of 51.1. The latest data signalled a sharp expansion in private sector business activity, as output growth regained momentum at manufacturers and service providers.

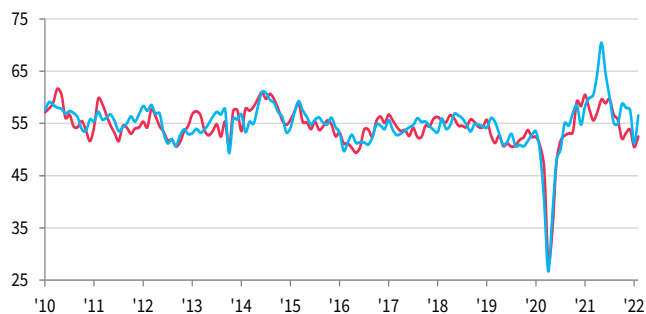
Stronger demand conditions at private sector firms led to the fastest upturn in new business since July 2021. Greater new sales were supported by increased foreign client demand, as new export orders rose solidly.

Inflationary pressures remained elevated across the private sector, despite manufacturers recording a slight slowdown in hikes in supplier costs. The rate of charge inflation quickened to a four-month high amid the sharpest rise in service sector output prices on record.

Further expansions in backlogs of work at private sector firms led to a greater impetus to hire new staff. Despite ongoing reports of labor shortages, firms were able to increase workforce numbers at the steepest pace since May 2021.

Services Business Activity Index Manufacturing Output Index

sa, >50 = growth since previous month

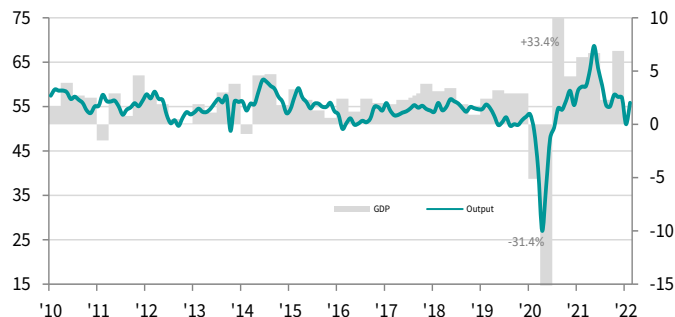


Source: IHS Markit.

US Composite PMI Output Index

sa, >50 = growth since previous month

GDP
% Q/Q Annualized



Sources: IHS Markit, Bureau of Economic Analyses.

Comment

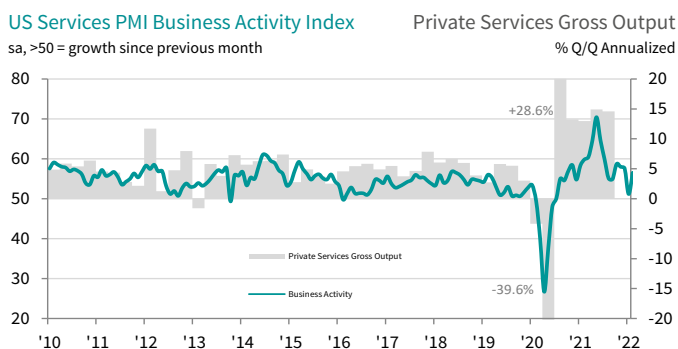
Commenting on the latest survey results, Chris Williamson, Chief Business Economist at IHS Markit, said:

“US service sector companies reported a strong rebound in business activity during February as virus containment measures were eased to the loosest since November. The data add to evidence from manufacturing surveys that the Omicron wave appears to have had only a modest and short-lived impact on the economy.

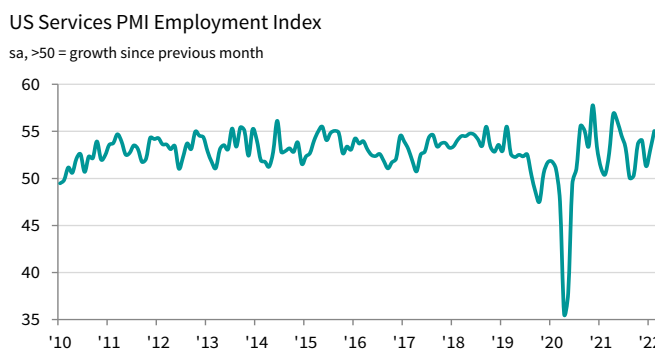
“February’s PMI surveys are broadly consistent with GDP rising at an annualised rate of 3.5%, representing a substantial improvement on the 0.9% rate signalled by the January surveys. First quarter GDP growth is therefore currently averaging just over 2%.

“Supply chain bottlenecks and poor labor availability remain widespread constraints on output, however, limiting economic growth in manufacturing and services, meaning demand continues to rise faster than output, resulting in unprecedented price pressures.

“The Ukraine conflict is leading to further upward movements in energy and broader commodity prices, which will add further to US inflationary pressures. More uncertain will be the extent to which business confidence is being affected by the war. Business optimism about the year ahead had surged across manufacturing and services in February to the highest for 15 months, as firms looked ahead to looser COVID-19 restrictions and saw signs of easing supply constraints. However, the resilience of this optimism will be tested by the conflict in Europe and will need to be monitored in the coming weeks as a barometer of risk appetite in terms of both spending and investment.”



Sources: IHS Markit, Bureau of Economic Analysis.



Sources: IHS Markit.

Contact

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

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

Katherine Smith
 Corporate Communications
 IHS Markit
 T: +1 (781) 301-9311
katherine.smith@ihsmarkit.com

Survey 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.

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

Survey dates and history

Data were collected 10-23 February 2022.

Survey data were first collected October 2009.

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Flash vs. final data

Since October 2009 the average difference between final and flash Services Business Activity Index values is 0.2 (0.4 in absolute terms). Since October 2009 the average difference between final and flash Composite Output Index values is 0.1 (0.4 in absolute terms).

About IHS Markit

IHS Markit (NYSE: 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.

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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.

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