News Release

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S&P Global US Services PMI™

Service sector stagnates in September, as demand conditions wane further

Key findings

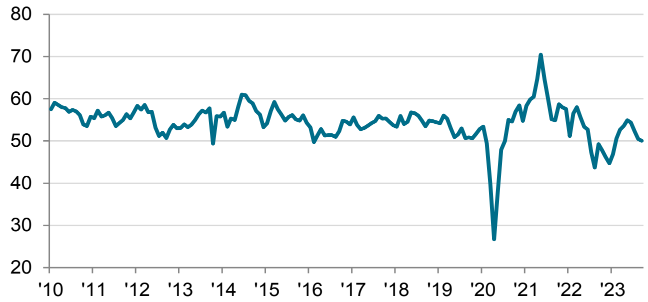
Fastest fall in new orders in 2023 so far

Employment growth quickens

Selling prices rise at sharper pace

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month



Data were collected 12-27 September 2023.
Source: S&P Global PMI.

The US services economy saw a subdued end to the third quarter, as business activity stagnated amid weak demand conditions, according to the latest PMI™ data from S&P Global. Broadly unchanged levels of business activity stemmed from a second successive monthly drop in new orders, arising from weaker domestic and foreign client demand. Companies depleted their backlogs of work at the fastest pace since November 2022 in order to sustain current business activity levels. Nonetheless, firms continued to build workforce numbers amid strong output expectations for the year ahead.

Input costs rose at a marked pace that was similar to that seen in August, but efforts to pass on higher costs to customers led to a faster uptick in output charges.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index posted 50.1 in September, down from 50.5 in August and broadly in line with the earlier released 'flash' estimate of 50.2. The latest data signalled a broad stagnation in business activity following seven successive months of growth in output. Despite some reports of sustained inflows of new business, companies highlighted that elevated inflation, high interest rates, and economic uncertainty all stymied customer demand.

September data indicated a continued decline in new business at service sector firms. The rate of contraction quickened to the sharpest since December 2022, albeit still modest overall. Lower new orders were reportedly linked to weak domestic and foreign client demand, with new export orders falling for the first time in five months. The decrease in new export sales was the steepest since February and was in stark contrast to the solid expansion seen in July.

Although slower than the series average, service providers saw a further rise in employment during September. Staffing numbers have risen in each month since July 2020, with the latest uptick the fastest for three months. Alongside

Comment

Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, said:

"The final PMI data for September add to indications that the US economy has started to cool again after a resurgence of growth earlier in the summer. Inflationary pressures in the service sector meanwhile remain uncomfortably sticky.

"The biggest change in recent months has been the waning in demand for consumer services, such as travel, tourism and recreation, along with a slump in financial services activity.

"Providers of consumer-oriented services report that a revival of demand in the spring has gradually lost momentum amid the ratcheting up of interest rates and increased cost of living at a time of diminishing savings. In the financial services sector, financial conditions are tightening and uncertainty about the outlook is subduing confidence. Both sectors are now reporting falling activity levels, taking away a major source of support to the wider economy's expansion.

"The economy therefore looks to be moving into the fourth quarter on a weak footing, hinting at slower GDP growth as we head toward the end of the year.

"Average prices charged for goods and services meanwhile continue to rise at a rate well above the pre-pandemic average, with service sector charge inflation remaining especially stubborn, in part due to recent oil price hikes."

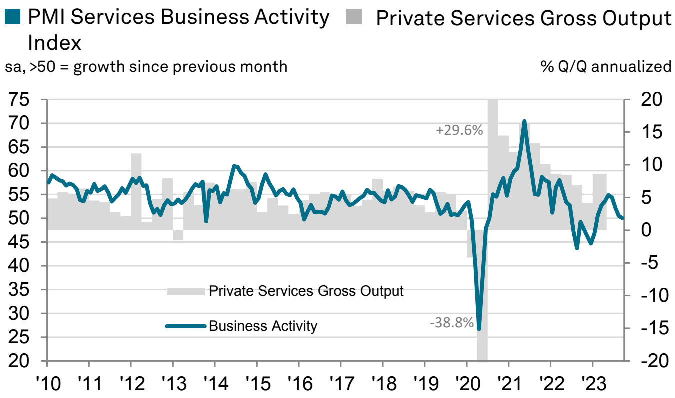
efforts to clear backlogs, firms noted that greater workforce numbers on the month were often due to the replacement of previous voluntary leavers.

Expanded capacity and a reduction in new orders allowed firms to work through their backlogs again. The level of incomplete business fell for the fourth time in the last five months and at the quickest rate since November 2022.

On the prices front, input costs rose at a further marked pace, with the rate of inflation similar to that seen in August. Panellists stated that higher energy, fuel, wage and food costs drove the latest increase in business expenses. The pace of cost inflation remained above the long-run series average.

In line with another substantial uptick in cost burdens, service providers hiked their selling prices in September. The pace of charge inflation accelerated to the fastest since July as firms sought to pass through greater costs to customers.

Finally, service sector businesses expressed positive expectations regarding the outlook for output over the coming year. The degree of confidence matched that seen in August but remained below the series trend. Optimism was pinned on investment in new service lines and greater marketing, as well as hopes of stronger customer demand, according to panellists.



Sources: S&P Global PMI, Bureau of Economic Analysis via S&P Global Market Intelligence.

S&P Global US Composite PMI™

Business activity broadly unchanged in September

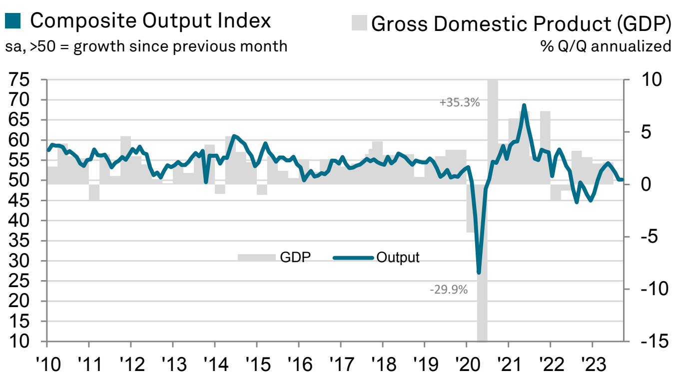
The final S&P Global US Composite PMI Output Index* posted 50.2 in September, unchanged from the figure seen in August. The latest data signalled broadly unchanged business activity across the US private sector, despite a return to modest output growth in the manufacturing sector.

Contractions in new business at manufacturers and service providers led to a sharper overall decrease in new orders during September. At the same time, new business from abroad fell at a marginal pace.

Although slower than the average seen in the post-pandemic period, input prices and output charges increased at faster paces than in August. Higher oil prices reportedly pushed up material and transportation costs at manufacturers and service providers.

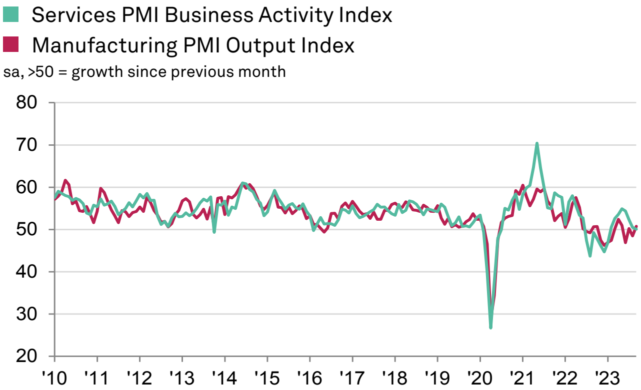
Despite weak demand conditions and a faster drop in backlogs of work, employment continued to rise. The increase in staff numbers was modest overall and the quickest since June.

Meanwhile, firms were more optimistic in their expectations for output over the coming year in September, largely driven by an uptick in confidence at manufacturing firms.

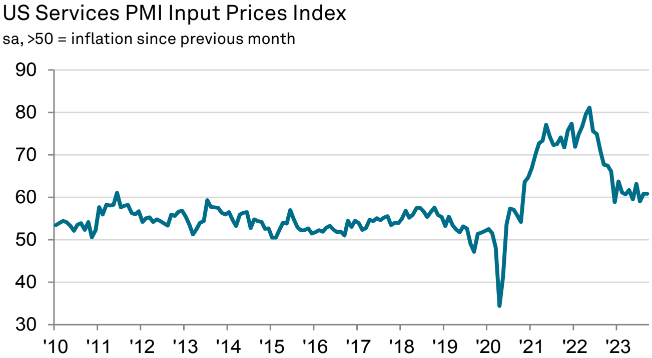


Sources: S&P Global PMI, Bureau of Economic Analysis via S&P Global Market Intelligence.

*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.



Source: S&P Global PMI.



Source: S&P Global PMI.

Survey methodology

The S&P Global US Services PMI™ is compiled by S&P Global 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. Data collection began in October 2009.

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@spglobal.com.

About S&P Global

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi

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