

News Release

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S&P Global US Services PMI™

Robust services growth accompanied by reignition of cost pressures in June

Key findings

Steep rise in new orders drives activity growth

Input cost inflation sharpest since January...

...but output charges increase at slowest rate for four months

June data signalled a further expansion of activity across the US service sector, according to the latest PMI™ data from S&P Global. Output continued to rise at a solid pace as the demand environment improved, spurring a strong upturn in new orders. Domestic and foreign client demand supported new business growth, as new export orders rose for a second month running. Subsequently, firms were more upbeat in their year-ahead expectations for activity and sought to expand employment accordingly. Job creation was also linked to greater pressure on capacity as backlogs of work returned to growth.

Supplier shortages, higher interest rates and increased wage bills pushed cost burdens higher. Input prices consequently rose at the sharpest pace in five months. That said, efforts to remain competitive led to more muted upticks in charges, meaning selling prices increased at the slowest rate since February.

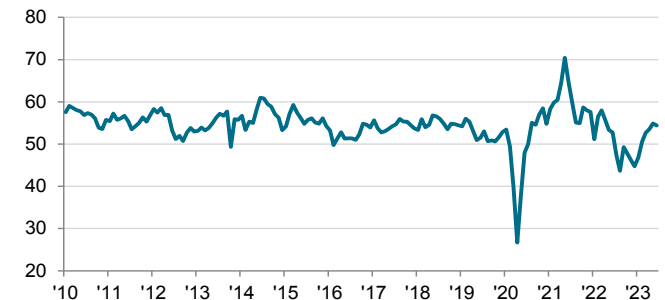
At 54.4 in June, the seasonally adjusted final S&P Global US Services PMI Business Activity Index fell slightly from 54.9 in May. Nonetheless, the latest data indicated a solid rise in business activity that was the second-fastest in just over a year. Companies noted that strong client demand and a sustained uptick in new business supported the latest expansion.

New orders at service providers increased for the fourth successive month in June. The rate of growth eased fractionally from May's 13-month high, but remained sharp overall. New customer wins and continued interest from existing clients were reportedly maintained by successful marketing strategies, helping to boost new sales, according to panellists.

At the same time, external demand improved for a second month running. Firms noted that a rise in new business from abroad was linked to the acquisition of new customers and a greater interest in international travel. New export orders

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month



Data were collected 12-28 June 2023.
Source: S&P Global PMI.

Comment

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

"June saw encouraging resilience of the US services economy, which helped offset a renewed contraction of manufacturing output to ensure the overall pace of economic growth remained encouragingly solid. The surveys signal GDP growth of just under 2% for the second quarter as a whole, albeit with June seeing some loss of momentum.

"Demand for services has remained surprisingly buoyant in the face of headwinds from the increased cost of living and higher interest rates, with spending still being supported by a post-pandemic tailwind for spending by consumers in particular. Higher interest rates and recent market gains are also boosting demand for some financial services.

"The worry is that, although selling price inflation has cooled further, June saw increased cost growth in the service sector, which has been the main area of inflation concern in recent months. Higher wages in particular are driving costs up, and could keep selling price inflation stubbornly elevated in the months ahead."

PMI™

by S&P Global

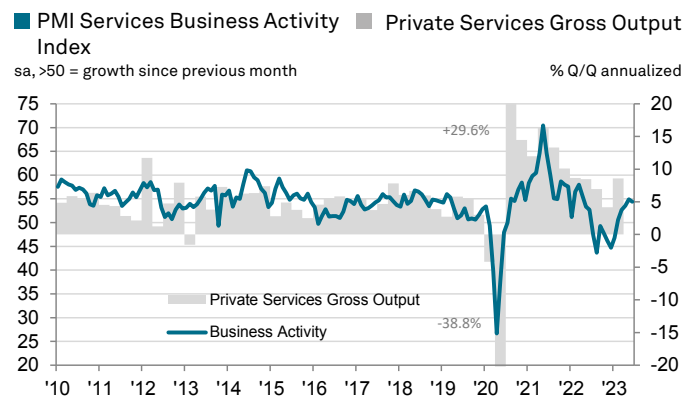
grew at a solid pace, though the rate of increase slowed from that seen in May.

On the price front, service sector firms saw a marked rise in cost burdens at the end of the second quarter. The increase in business expenses was reportedly driven by greater wage bills, with some companies also noting upticks in supplier prices and higher borrowing costs. The pace of cost inflation reaccelerated and was the sharpest since January.

Despite faster cost inflation, service providers registered a slower increase in selling prices in June. The rate of charge inflation eased further from April's eight-month high to the weakest since February. Efforts to remain competitive reportedly limited pricing power, despite several firms reporting the continued pass-through of greater costs to clients.

A further expansion in new business led firms to raise employment. Job creation has been seen in each month since July 2020, with June's modest pace of increase again little-changed since March. Nonetheless, strain on capacity was reflected in a renewed accumulation of backlogs of work in June. Although only marginal, service providers noted pressure on staffing resources to fulfil incoming new business.

Sentiment was buoyed by accommodating demand conditions, with output expectations for the year ahead strengthening. The degree of confidence was the highest for just over a year amid hopes that investment in new service lines, marketing spending and softer inflation will support growth.



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

S&P Global US Composite PMI™

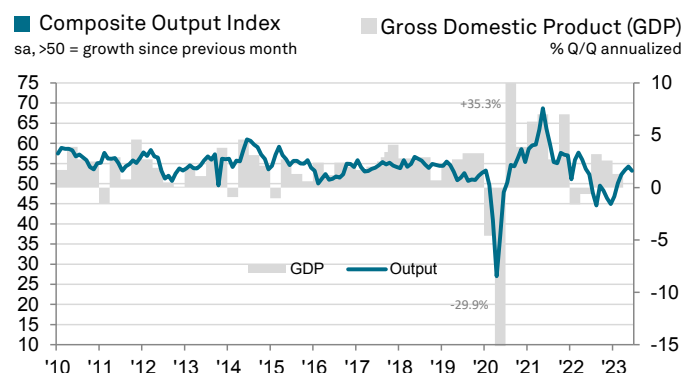
Solid rise in private sector output, but manufacturing weighs on overall performance

The S&P Global US Composite PMI Output Index* posted 53.2 in June, down from 54.3 in May, to signal a solid but slower upturn in business activity. Service providers registered a softer upturn in output, whilst there was a renewed contraction in manufacturing production.

Similarly, total new orders rose at a solid pace, albeit slower than in May. The decline in manufacturing new sales accelerated and offset to some degree the services expansion. Meanwhile, new export orders fell further. Total new business from abroad contracted for the thirteenth month running.

Cost pressures picked up, as a second successive fall in cost burdens at manufacturers was offset by the steepest rise in service sector costs recorded since January. Output charges continued to rise at a strong rate that was well above the pre-pandemic average. This was despite broadly unchanged selling prices in the goods-producing sector. Output charges were buoyed by rising prices in the service sector, though the overall increase was the slowest since January.

Efforts to fill long-held vacancies, alongside service sector efforts to work through backlogs, led to a further moderate increase in employment.

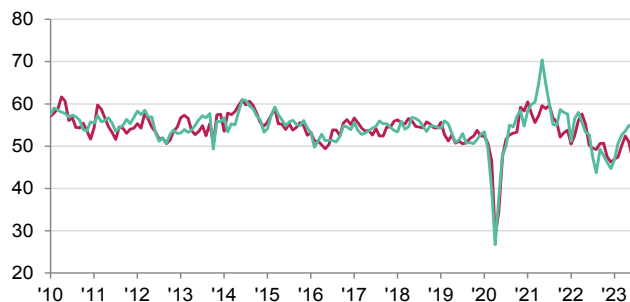


Sources: S&P Global PMI, Bureau of Economic Analysis via S&P Global Market Intelligence.

*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.

■ Services PMI Business Activity Index
 ■ Manufacturing PMI Output Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

US Services PMI Input Prices Index

sa, >50 = inflation since previous month



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@ihsmarkit.com.

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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. ihsmarkit.com/products/pmi.html.

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