News Release

Embargoed until 0945 EDT (1345 UTC) 06 July 2022

S&P Global US Services PMI™

New orders decline for first time since July 2020

Key findings

Renewed contraction in new business

Slower rise in activity, while business optimism drops

Further sharp increase in input costs

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month

Source: S&P Global.

Data were collected 13-27 June 2022.

US service providers saw new orders decrease midway through the year, according to the latest PMI™ data, with sustained price pressures and economic uncertainty hitting demand. The decline in new business was the first in almost two years and contributed to a slowdown in growth of activity. Meanwhile, business confidence regarding the year ahead outlook dropped to a 21-month low. On a more positive note, employment continued to increase sharply.

A further substantial rise in input prices was recorded in June, although inflation did ease from May's survey peak. Rising wages played a key role in higher input costs, with increased fuel charges also widely mentioned. Firms often passed on higher costs to their customers, but efforts to stimulate demand led to a further slowdown in charge inflation.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index registered 52.7 in June, remaining above the 50.0 no-change mark and thereby signalling a further increase in business activity. A recent spell of new order growth amid a lack of pandemic disruption supported continued output expansion. That said, the index dropped for the third month running and was down from 53.4 in May, pointing to the weakest rise in activity since January.

Some firms highlighted the negative impact of inflationary pressures on business activity, and this was also the case with regards to new orders, which decreased for the first time since July 2020. Economic uncertainty was also a factor leading new business to fall, according to respondents.

Alongside a decline in total new business was a renewed contraction in new export orders, which decreased at a solid pace. The reduction ended a seven-month sequence of growth.

Steep price pressures were recorded again in June. The rate of input cost inflation slowed from May's survey record, but was still among the fastest since the series began in October 2009. Higher wages were one of the main drivers of rising

Comment

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

"June saw signs of a broad-based weakening of the economy with demand now falling in both the manufacturing and service sectors. While the survey data point to a stalling of GDP at the end of the second quarter, a downshifting in the forward-looking new orders index and drop in companies' future output expectations hints at falling economic activity as we head through the summer.

"Demand for goods and services from households is showing signs of moderating substantially due to the rising cost of living. Meanwhile, tighter financial conditions are starting to hit, and it was notable that the service sector slowdown was led by a steep drop in financial services activity.

"Meanwhile there was welcome news in terms of a marked easing in upward price pressures, but it's clear that price growth remains elevated despite coming off recent peaks, all of which points to a bout of stagflation in the near term."

PMI™ by S&P Global

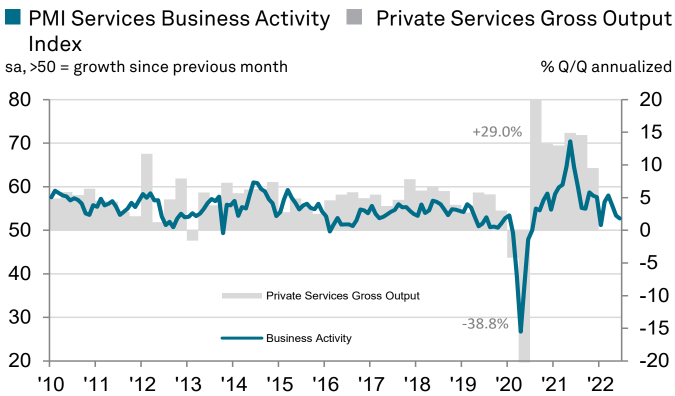
input costs in the latest survey period, with increasing fuel prices also widely mentioned. Some 56% of respondents signalled a rise in input costs over the month.

The passing on of higher input costs to customers resulted in a further marked increase in selling prices in the US service sector. That said, the rate of inflation slowed sharply for the second month running and was the softest since last September. Some panellists reported trying to price competitively to attempt to stimulate new business in a weakening demand environment.

Service providers continued to raise their staffing levels rapidly, with firms hiring to support growth of activity and fill previously vacant positions. The sharp increase in employment was recorded despite some reports of difficulties finding suitable staff.

The combination of rising staffing levels and falling new orders meant that companies were able to deplete their backlogs of work in June. The drop in outstanding business was the first in two years and represented a marked turnaround from the record accumulation seen as recently as March.

Concerns around customer demand, in some cases linked to inflationary pressures and rising interest rates, led to a sharp drop in confidence regarding activity over the coming year. Sentiment was the lowest since September 2020. Those companies continuing to predict growth of activity mentioned rising workforce numbers, the start of new projects and hopes for an improvement in new orders.



Sources: S&P Global, US Federal Reserve.

S&P Global US Composite PMI™

New orders fall for first time in almost two years

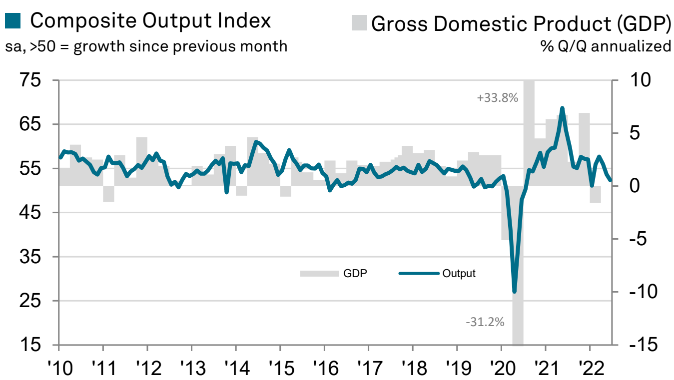
The S&P Global US Composite PMI Output Index* posted 52.3 in June, down from 53.6 in May. The latest rise extended the current sequence of expansion to two years, but was the softest since January.

The slowdown in growth was broad based, with both manufacturing and services seeing weaker increases at the end of the second quarter. Business confidence also waned, dropping to the lowest since September 2020.

A weaker expansion in output reflected a renewed contraction in new orders, the first in almost two years. New business was down across both monitored sectors, with new export orders also falling.

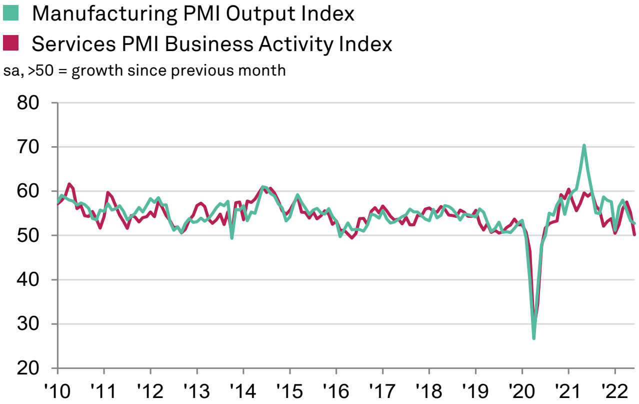
Rates of input cost and output price inflation remained sharp in June, but eased amid softer demand conditions.

The main positive from the latest surveys was a further marked increase in employment, with job creation led by the service sector.

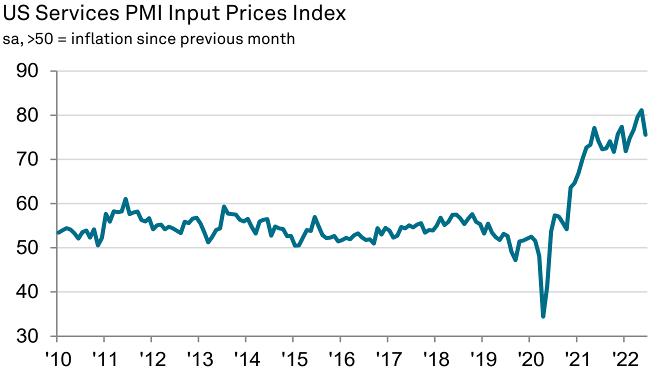


Sources: S&P Global, Bureau of Economic Analysis.

*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.



Source: S&P Global.

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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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