News Release

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S&P Global US Services PMI®

Business activity growth accelerates to seven-month high in January

Key findings

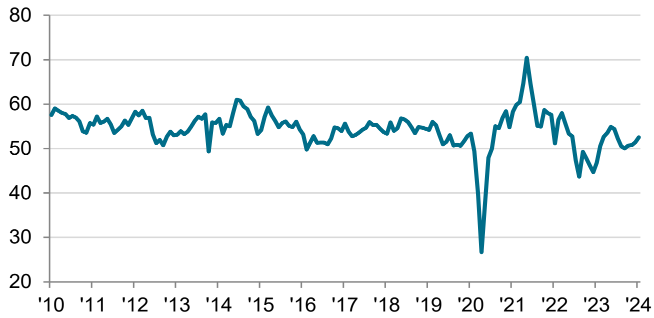
Stronger growth in new orders sparks faster upturn in output

Selling prices rise at slowest pace in over three-and-a-half years

Business confidence at seven-month high

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month



Data were collected 11-30 January 2024.
Source: S&P Global PMI.

The US services economy signalled a stronger start to the year as business activity expanded at the fastest pace since June 2023, according to the latest PMI® data from S&P Global. Contributing to the upturn was a quicker rise in new orders. Improved demand conditions were reported in the domestic market, but new export orders also increased, rising at the steepest rate since August 2023. Subsequently, firms expressed increased optimism regarding the outlook for output over the next year, and continued to expand their staffing numbers. This was also in response to renewed pressure on capacity, as backlogs of work rose for the first time in seven months.

At the same time, inflationary pressures softened. In a bid to remain competitive, services providers raised output charges at the slowest pace in the current sequence of increase that began in June 2020, aided by slower growth of input costs. Service sector input prices rose at the second-slowest rate since October 2020.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index posted 52.5 in January, up from 51.4 in December, but slightly lower than the earlier released 'flash' estimate of 52.9. The latest reading signalled a modest expansion in output, with the rate of growth accelerating for the fourth month running to the fastest since June 2023. Greater business activity was commonly linked to stronger demand conditions and a faster upturn in new orders.

Services firms recorded a third successive monthly increase in new business, the pace of growth quickening to the sharpest in seven months. Although slower than the series average, the expansion was attributed to fruitful advertising campaigns and greater customer activity.

In line with a rise in total new sales, new business from abroad returned to growth in January. Albeit only marginal, the rate of expansion was the steepest since August 2023 amid stronger demand conditions in key export markets.

Comment

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

"The US service sector started the year in a sweet spot, with output and demand growth accelerating while price pressures cooled markedly. The key driver of faster growth was the financial services sector, where looser financial conditions tied to expectations of lower interest rates spurred greater activity in January. Households are also benefitting from loosened financial conditions, driving renewed growth in consumer-facing services.

"The buoyancy of the service sector has outweighed a further lackluster performance in manufacturing, and is driving overall output higher at a rate broadly consistent with GDP rising at a 2% pace. With bad weather having curbed some economic activity in January, February should see some further improvement in overall performance.

"Business optimism about growth prospects in the service sector has likewise jumped higher, encouraging further payroll growth, albeit the latter limited by labor shortages.

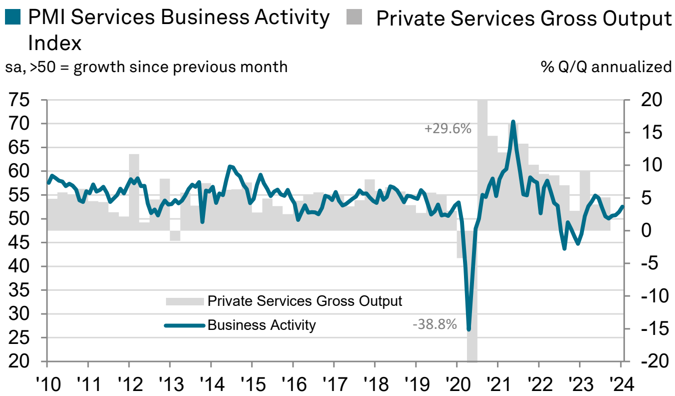
"Price pressures have meanwhile shifted lower. Overall service sector input cost growth is now running at the second-lowest for over three years, helping pull selling price growth across goods and services down to a level consistent with inflation dropping materially below the Federal Reserve's 2% target in the near future."

Although new business growth strengthened, service providers reportedly sought to price competitively and some offered concessions to customers. Subsequently, the rate of charge inflation slowed to the softest in the current sequence of increase that began in June 2020. Moreover, the uptick in selling prices was only marginal overall.

Input costs continued to rise at a sharp pace in January, however. Panellists attributed higher operating expenses to greater supplier, fuel and transportation costs, alongside increased wage bills. That said, the pace of cost inflation was slower than in December and weaker than the historic trend rate.

Greater new order inflows helped support stronger business confidence among US services firms at the start of the year. Output expectations for the year ahead picked up to the highest since June 2023, with the degree of optimism in line with the historic series average. Investment in advertising campaigns and the introduction of new service lines reportedly buoyed firms' sentiment.

Meanwhile, a renewed rise in backlogs of work spurred services companies to expand staffing numbers during January. The rise in backlogs of work was the quickest since March 2023. That said, the rate of job creation was only marginal and eased from December, as some firms reported struggles retaining employees or replacing leavers.



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

S&P Global US Composite PMI®

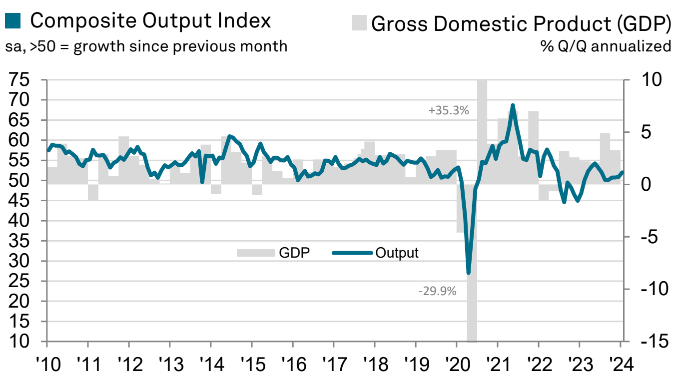
Private sector output expansion fastest for six months

The final S&P Global US Composite PMI Output Index* posted 52.0 at the start of the year, up from 50.9 in December, to signal a modest rise in business activity and one that was the sharpest since July 2023. An expansion in service sector output counteracted a decrease in manufacturing production.

The rise in new business was broad-based, however, as manufacturers and service providers saw a moderate increase in client demand. The rate of growth was the quickest in seven months, despite being weighed down by a second successive monthly drop in new export orders.

On the price front, cost burdens faced by firms rose at a softer pace compared to December, and one that was slower than the series trend. Although manufacturers recorded a faster uptick in selling prices, only a marginal rise in services output prices led to the weakest rate of overall charge inflation since May 2020.

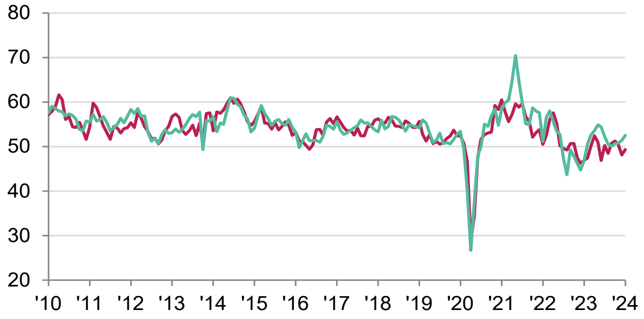
Meanwhile, business confidence reached a 20-month high as manufacturers and services firms recorded stronger expectations for output growth over the coming year.



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

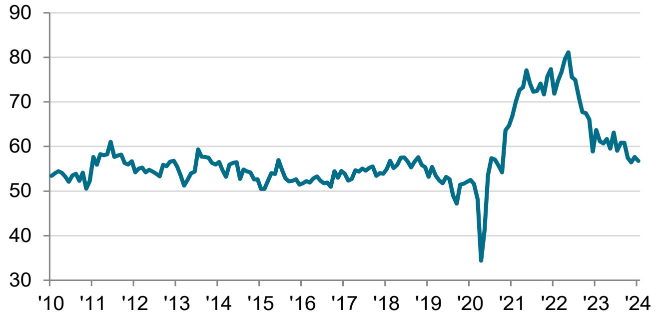
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

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@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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