

MARKET SENSITIVE INFORMATION

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S&P Global Flash US Composite PMI™

Private sector contraction in the US continues into the new year, with renewed pick up in cost pressures

Key findings:

Flash US PMI Composite Output Index⁽¹⁾ at 46.6 (December: 45.0). 3-month high.

Flash US Services Business Activity Index⁽²⁾ at 46.6 (December: 44.7). 3-month high.

Flash US Manufacturing Output Index⁽⁴⁾ at 46.7 (December: 46.2). 2-month high.

Flash US Manufacturing PMI⁽³⁾ at 46.8 (December: 46.2). 2-month high.

Data were collected 09-23 January

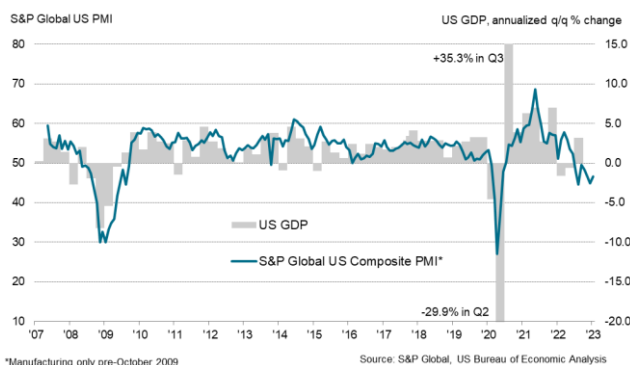
Private sector firms in the US registered a further decline in output at the start of 2023, according to latest 'flash' PMI™ data from S&P Global. The fall in business activity softened to the slowest in three months, however, as manufacturers and service providers signalled moderations in their respective downturns.

The headline **Flash US PMI Composite Output Index** registered 46.6 in January, up from 45.0 at the end of 2022. The contraction in activity was solid overall, but the slowest since last October. Goods producers and service providers recorded similar rates of decline, with service sector firms indicating a notable slowdown in the pace of decrease since December. Nonetheless, companies continued to highlight subdued customer demand and the impact of high inflation on client spending.

At the same time, **new orders** across the private sector declined for the fourth successive month in January. The fall in new business was modest overall, and eased to the slowest for three months. Inflation, interest rates and customer hesitancy continued to be reported as driving the downturn. Service providers registered a marginal decrease in new sales, but manufacturers saw new orders fall sharply once again. Conversely, manufacturers recorded a slower contraction in **new export orders** compared to their service sector counterparts.

Bringing to an end a seven-month sequence of moderating **input price** rises, January data indicated a faster increase in cost burdens at private sector firms. Although well below the average rise seen over the prior two years, the rate of cost inflation quickened from December and was historically elevated. Hikes in vendor prices, alongside higher wage bills, reportedly spurred the sharper rise in

S&P Global Flash US PMI Composite Output Index



costs.

Nevertheless, the rate of **output charge** inflation at private sector firms was unchanged from that seen in December 2022. January data signalled a solid uptick in selling prices, but one that was the joint-slowest since October 2020. Efforts to remain competitive and offer concessions to customers dampened output price hikes.

Despite subdued demand conditions and a further solid decrease in **backlogs of work**, US firms recorded a marginal rise in **employment** at the start of 2023. The rate of job creation was one of the softest in the current sequence of employment growth that began in July 2020. The upturn in workforce numbers was driven by service providers, as manufacturers registered a fractional contraction in staffing levels. Firms continued to mention efforts to build employee numbers, especially in roles with long-held vacancies.

Meanwhile, business confidence strengthened at the start of the year. Despite still being below the historic series trend, the degree of optimism was the highest for four months. The pick-up in positive sentiment was broad-based, with companies hopeful of a resurgence in customer demand as 2023 progresses.

S&P Global Flash US Services PMI™

The **S&P Global Flash US Services Business Activity Index** posted 46.6 in January, up from 44.7 in December. The latest data signalled a solid fall in service sector output, but one that was the softest since last October. The slower fall in business activity was in part linked to a less

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marked contraction in new orders at service providers. The decrease in new business was only marginal overall. That said, customer hesitancy and the impact of inflation on spending remained a key drag on new domestic and external sales.

Greater wage costs and further increases in supplier prices drove up cost burdens during January. The rate of input price inflation gathered pace and was sharper than that seen in the previous survey period. A steeper rise in costs was not reflected in output prices, however, as the pace of charge inflation matched that seen in December 2022, with firms seeking to drive new orders.

Service sector firms continued to expand their workforce numbers at the start of the year, albeit only fractionally. Employment in the sector has risen each month since July 2020 as firms seek to rebuild staffing numbers and fill skilled vacancies despite mounting wage pressures.

Job creation came despite a further decline in backlogs of work at service sector firms. Levels of incomplete business fell solidly, as muted demand conditions allowed firms to work through outstanding projects.

Service providers were more upbeat in their expectations for output over the coming year in January. The degree of business confidence reached a four-month high amid hopes that domestic and external demand conditions improve.

S&P Global Flash US Manufacturing PMI™

At 46.8 in January, the **S&P Global Flash US Manufacturing PMI** was up slightly from 46.2 in December, to signal a solid decline in operating conditions at the start of 2023. Although softening, the rate of decline was the second-fastest since May 2020 as manufacturing demand conditions remained subdued.

Driving the overall downturn was a third consecutive fall in production at manufacturers in January. Output contracted following another sharp drop in new order inflows, with firms highlighting the impact greater costs were having on client demand. The rate of decline in new business was the second-fastest in over two-and-a-half years. Nonetheless, the fall in new export orders was only modest overall, as external demand conditions contracted at the slowest pace since June 2022.

Input prices increased at a faster pace in January, thereby ending a sequence of moderation in cost inflation that began in mid-2022. Despite firms noting hikes in vendor prices, that rate of inflation was softer than the long-run series trend. Vendor performance deteriorated only marginally at the start of the year, with supply chain disruption much reduced from that seen in 2022.

At the same time, muted purchasing activity at manufacturers dampened cost increases. Input buying fell at the sharpest pace since May 2020, as firms instead worked through their stocks of purchases and finished goods.

Firms raised their selling prices at a fractionally quicker rate. The pace of charge inflation was still elevated by historic standards, but efforts to stay competitive and boost sales reduced firms' scope to increase factory gate charges.

Severely subdued demand conditions and a strong reduction in pressure on capacity led manufacturers to cut their workforce numbers for the first time since July 2020 in January. Low work volumes and poor employee retention due to wage pressures were often linked to the reduction.

Goods producers were, however, more optimistic regarding the outlook for output over the coming 12 months at the start of the year. Output expectations were the strongest since May 2022, as firms sought to acquire new customers through marketing and new product launches.

Commenting on the US flash PMI data, **Chris Williamson**, Chief Business Economist at S&P Global Market Intelligence said:

"The US economy has started 2023 on a disappointingly soft note, with business activity contracting sharply again in January. Although moderating compared to December, the rate of decline is among the steepest seen since the global financial crisis, reflecting falling activity across both manufacturing and services.

"Jobs growth has also cooled, with January seeing a far weaker increase in payroll numbers than evident throughout much of last year, reflecting a hesitancy to expand capacity in the face of uncertain trading conditions in the months ahead. Although the survey saw a moderation in the rate of order book losses and an encouraging upturn in business sentiment, the overall level of confidence remains subdued by historical standards. Companies cite concerns over the ongoing impact of high prices and rising interest rates, as well as lingering worries over supply and labor shortages.

"The worry is that, not only has the survey indicated a downturn in economic activity at the start of the year, but the rate of input cost inflation has accelerated into the new year, linked in part to upward wage pressures, which could encourage a further aggressive tightening of Fed policy despite rising recession risks."

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Note to Editors

Final January data are published on 3 February for manufacturing and 5 February for services and composite indicators.

The US PMI™ (Purchasing Managers' Index™) is produced by S&P Global and is based on original survey data collected from a representative panel of around 800 companies based in the US manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final *PMI* index values (final minus flash) since comparisons were first available in October 2009 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Composite Output Index ¹	0.1	0.4
Manufacturing <i>PMI</i> ²	0.0	0.3
Services Business Activity Index ²	0.2	0.4

The *Purchasing Managers' Index*™ (*PMI*™) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. *PMI*™ surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

S&P Global do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from S&P Global. Please contact economics@ihsmarkit.com.

Notes

1. The Composite Output *PMI* is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing *PMI* is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

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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. To learn more go to <https://ihsmarkit.com/products/pmi.html>.

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