News Release

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S&P Global US Services PMI™

Output growth quickens on stronger demand conditions, but price hikes intensify in April

Key findings

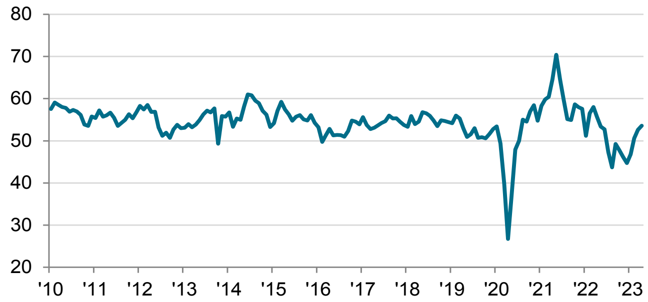
Business activity and new orders rise at faster rates

Faster input cost and output charge inflation

Employment growth strongest since August 2022

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month



Data were collected 12-26 April 2023.
Source: S&P Global.

The US service sector upturn strengthened in April, according to the latest PMI™ data from S&P Global, as output, new orders and employment growth all accelerated. The rate of expansion in new orders was the sharpest for almost a year. Stronger demand conditions put pressure on capacity as backlogs of work rose again, spurring a quicker increase in employment. The rate of job creation was the fastest since last August. Firms were also more upbeat regarding the year-ahead outlook for output.

Concurrently, inflationary pressures regained momentum. Service sector input costs rose at the steepest rate for three months, while the increase in selling prices quickened to the fastest since August 2022.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index registered 53.6 at the start of the second quarter, up from 52.6 in March and broadly in line with the earlier released 'flash' estimate of 53.7. The latest data signalled the third successive monthly increase in output at service providers, with the rate of growth accelerating to the fastest for a year. Panellists stated that output increased amid greater customer confidence and another increase in new business.

Supporting the expansion in output was a second successive monthly increase in new orders. The rate of growth was only modest overall, but quickened to the sharpest since May 2022. Where a rise in new business was reported, firms linked this to greater customer referrals, stronger demand conditions and successful marketing and sales initiatives.

The upturn in demand was largely confined to the domestic market, however, as new export orders for services fell for the eleventh month running in April. Challenging economic conditions in key export markets resulted in customer hesitancy in placing orders following rises in average prices charged, according to survey respondents. That said, the pace of export decline was only marginal and the second-

Comment

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

"April saw an encouraging acceleration of service sector growth which, combined with indications of a renewed upturn in manufacturing, suggests the economy has regained some momentum at the start of the second quarter.

"Companies have reported an improvement in confidence compared to the gloomier picture seen late last year, with service sector companies also benefiting from a post-pandemic tailwind of spending shifting from goods to services, notably among consumers.

"However, there are indications that resurgent demand for services is reigniting inflationary pressures. Average rates charged for services are now rising at the sharpest rate for eight months, as firms report a greater ability to pass increased costs on to customers. This upturn in the service sector selling price gauge hints at a concerningly stubborn stickiness of core inflation.

"Much of course depends on whether this recovery in demand can persist. Headwinds from higher interest rates and the increased costs of living, combined with the winding down of household savings, suggest the upturn could lose steam in the months ahead."

slowest in the near year-long sequence of contraction.

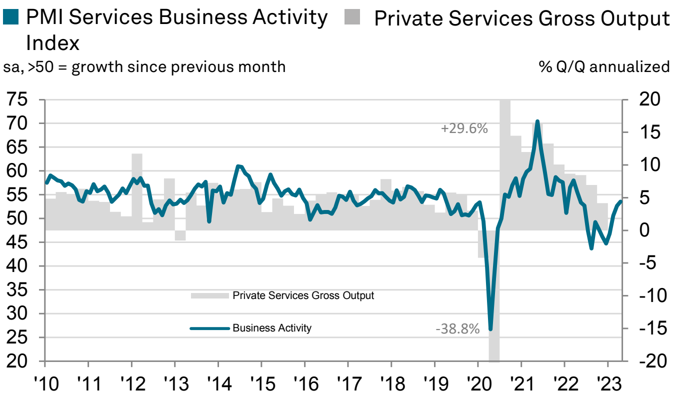
Stronger overall demand conditions brought with it the reignition of inflationary pressures in April. Average cost burdens rose at a marked pace that was the fastest since January and historically elevated. Higher business expenses were reportedly due to hikes in supplier prices and greater salary costs.

Selling prices at service providers increased at a steeper rate at the start of the second quarter, reflecting a faster uptick in cost burdens as well as strengthening demand, the latter allowing the pass-through of higher input prices to customers. The pace of charge inflation accelerated for a third successive month to the sharpest since August 2022.

In line with greater new business, firms expanded their workforce numbers during April. Efforts to relieve pressure on capacity drove job creation, as the rate of employment growth reached the strongest since last August.

Nonetheless, backlogs of work rose again. Although the rate of accumulation softened, it was sharper than the series average and the second-fastest since May 2022.

Business expectations among service providers improved in April, as firms were more upbeat regarding the outlook for output over the coming 12 months. The degree of optimism was the second-highest in almost a year, despite being slightly weaker than the series average. Confidence was linked to investment in sales and marketing activity as a means to increase sales.



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

S&P Global US Composite PMI™

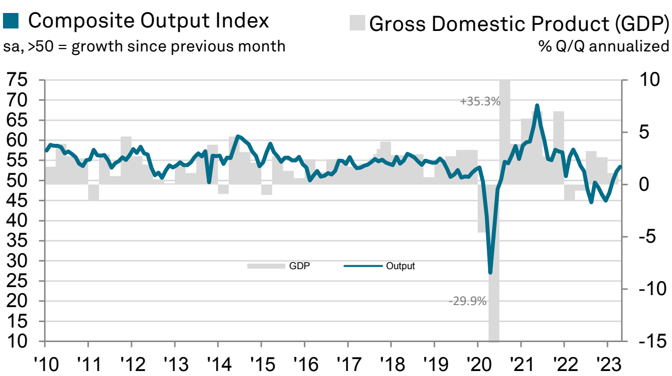
Output expansion accelerates to fastest for nearly a year in April

The S&P Global US Composite PMI Output Index* posted 53.4 in April, up from 52.3 in March, to signal a solid upturn in private sector business activity. The faster expansion in output reflected quicker increases in activity at manufacturing and service sector firms. The rate of growth was the sharpest since May 2022.

Driving the rise in output was a quicker increase in new business. Service providers registered a sharper upturn in new business, while manufacturers noted the first expansion in client demand since September 2022. Nevertheless, foreign client demand continued to weaken, as new export orders contracted again.

Price pressures regained momentum in April, as input costs and output charges rose at sharper rates. The acceleration in inflation was broad based, with service sector firms registering the faster upticks in both costs and charges.

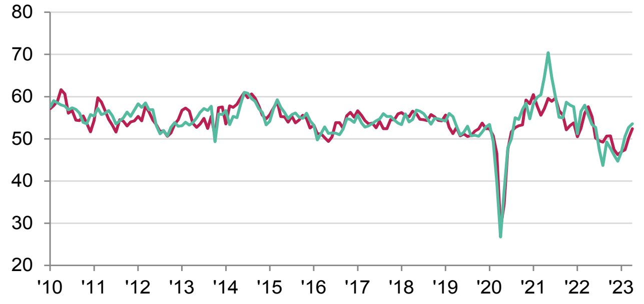
Meanwhile, firms stepped up their hiring, with employment growing at the quickest rate since July 2022. Service sector firms continued to note a rise in backlogs, with a decline in manufacturing work-in-hand dampening the total upturn.



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

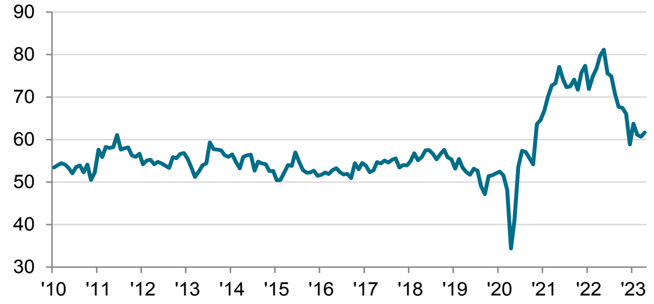
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Services PMI Business Activity Index
Manufacturing PMI Output Index
sa, >50 = growth since previous month



Source: S&P Global.

US Services PMI Input Prices Index
sa, >50 = inflation since previous month



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.

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. ihsmarkit.com/products/pmi.html.

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