News Release

Embargoed until 0945 EDT (1345 UTC) 06 September 2023

S&P Global US Services PMI™

Service sector demand falters sparking weakest growth in activity for seven months

Key findings

Renewed decline in new business

Cost burdens rise at faster pace but selling price inflation slows

Employment growth weakest since October 2022

The US services economy reported a slowdown in growth in August, according to the latest PMI™ data from S&P Global. Business activity increased only fractionally and at the slowest pace in the current seven-month sequence of expansion. A weaker rise in output was primarily driven by a renewed contraction in new business, as client demand was reported to have been dampened by interest rate hikes and elevated inflation. The downturn was driven by subdued domestic demand, as new export orders continued to increase. As a result of the drop in new business and growing evidence of spare capacity, firms expanded their staffing numbers at the slowest pace in almost a year.

On the inflation front, input prices rose at a steeper pace in August, which was largely driven by higher wage bills. Firms were hesitant to pass through the full extent of increased input prices to their clients, however, as selling prices rose at a softer pace.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index posted 50.5 in August, down sharply from 52.3 in July. The rate of output growth slowed for the third month running and was only marginal. Although some firms noted that activity growth was led by efforts to work through past orders, weak client demand and a return to contraction in new business weighed on the expansion.

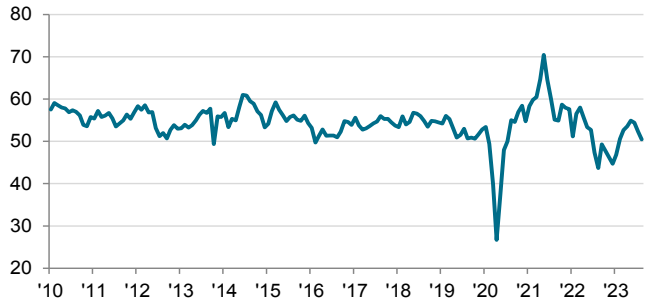
Although only fractional, the fall in new orders was the first in six months and signalled a marked turnaround from the sharp upturn seen in the second quarter of 2023. Muted demand conditions reportedly stemmed from the impact of higher interest rates and inflation on customer spending.

Foreign client demand remained more supportive, with new export orders continuing to rise in August thanks to new client acquisition and sustained interest from existing customers.

Service providers largely noted that greater wage bills drove input price inflation during August, alongside reports of

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month



Data were collected 10-29 August 2023.
Source: S&P Global PMI.

Comment

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

"The survey data send a hint of rising stagflation risks, as stubborn price pressures are accompanied by a near-stalling of business activity.

"The PMI numbers for the third quarter so far point to a faltering of economic growth after a robust second quarter, as a renewed manufacturing downturn is accompanied by a deteriorating picture in the service sector.

"While a post-pandemic revival of travel, recreation and hospitality spend contributed to an improved economic performance in the spring and early summer, this tailwind is losing momentum. Companies increasingly report customers to have become reticent to spend amid gloomier prospects as higher interest rates and the increased cost of living take their toll. However, financial services and business services providers are also increasingly feeling the pinch from weakening demand.

"Persistent wage growth is meanwhile being accompanied by renewed upward pressure on energy, fuel and transport costs, as well as some broader firming of materials prices, driving cost growth higher. Competitive forces have kept a lid on selling price inflation, but the rate of increase of service sector charges remains elevated to the extent that consumer price inflation is likely to remain stubbornly above the Fed's target in the coming months.

"The key data to watch in the coming months will be the degree to which any further waning of demand for services translates into lower pricing power and reduced inflation."

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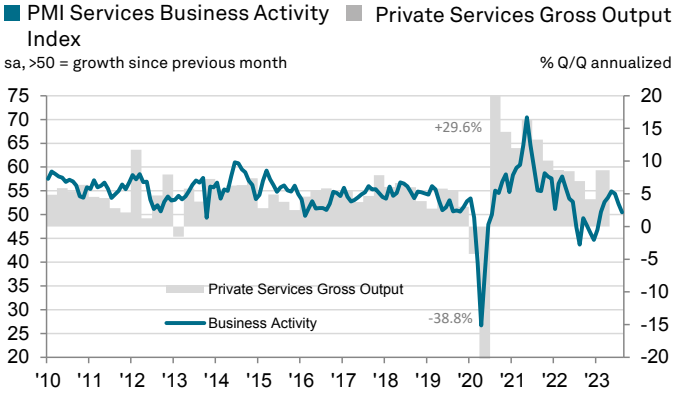
upward energy and fuel price pressures as well as some firming of materials prices. The rate of increase picked up from that seen in July and was marked overall. Although slower than the 2023 average to date, the pace of inflation was historically marked.

Subdued demand conditions led firms to be more hesitant regarding increases in selling prices in August. Although still sharp overall by pre-pandemic historical standards, the rate of output charge inflation was the slowest since February.

Service sector firms meanwhile recorded only a fractional rise in employment midway through the third quarter. Lower new order inflows were widely cited as encouraging a drawback in hiring activity. The rate of job creation weakened for the third successive month to the slowest since October 2022.

The softer uptick in workforce numbers reflected emerging evidence of spare capacity across the service sector, amid the renewed drop in new business. Backlogs of work fell for a second month running, declining at the steepest rate since November 2022.

Firms remained upbeat in their assessment of the outlook for output over the coming year, despite the current muted demand. The degree of confidence improved from that seen in July, yet remained below the series average. Although companies were often buoyed by hopes that initiatives such as marketing campaigns would drive growth in new orders, client hesitancy amid interest rate hikes subdued expectations.



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

S&P Global US Composite PMI™

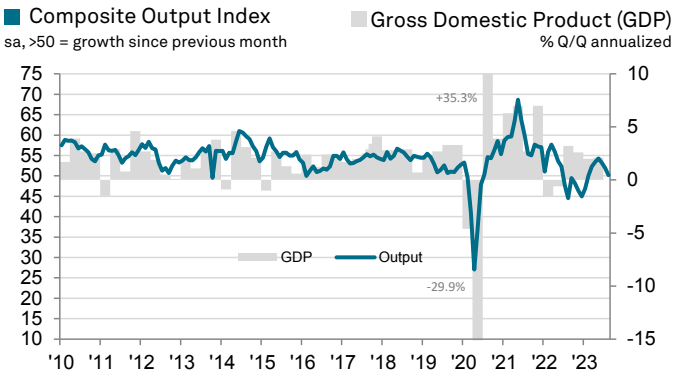
Private sector output growth slows to weakest since February

The final S&P Global US Composite PMI Output Index* posted 50.2 in August, down from 52.0 in July, to signal only a fractional increase in business activity at US private sector firms. The slowdown in growth stemmed from a weaker service sector expansion and a renewed decrease in manufacturing output.

Alongside a renewed decline in service sector new orders, manufacturing firms recorded a stronger fall in new sales. Total new business fell at a marginal pace, but for the first time since February. At the same time, new export orders returned to contraction as falling demand for goods offset higher spend on services.

Cost pressures intensified across the private sector amid hikes in wage bills and material costs in August. Although historically elevated, the rate of output charge inflation slowed from that seen in July.

Softer demand conditions led firms to rein in their hiring activity, as firms registered the slowest rise in employment since October 2022. Workforce numbers increased at a softer rate as evidence of spare capacity persisted and backlogs of work fell at a sharper pace.



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.

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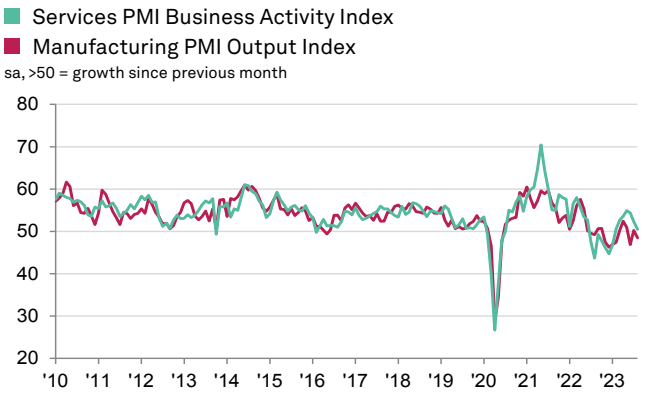
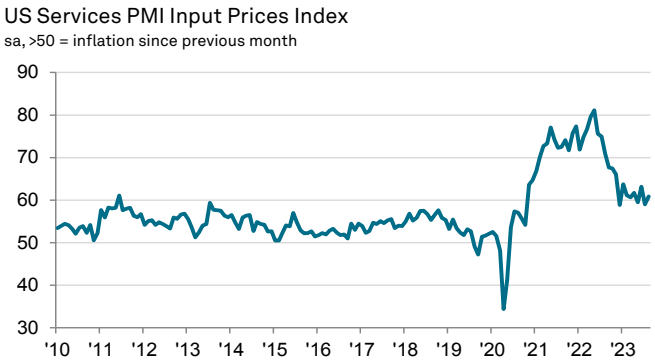


Source: S&P Global PMI.



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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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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