News Release

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S&P Global US Services PMI™

Business activity declines for first time in over two years amid soft demand conditions

Key findings

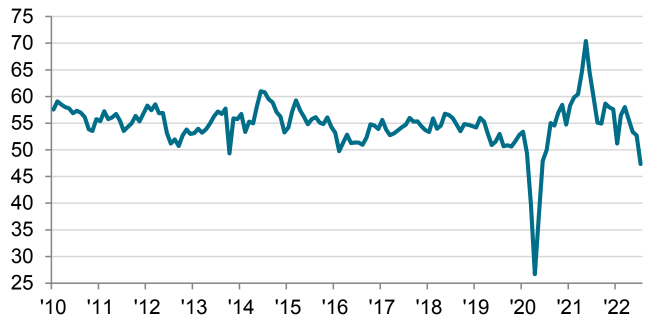
Fastest fall in output since May 2020

Cost pressures ease further

Business confidence slumps to lowest in almost two years

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global.

Business activity across the US service sector decreased at a solid pace during July, according to the latest PMI™ data. The fall in output was the fastest since May 2020. Although new orders returned to growth, the rate of expansion was historically subdued and much slower than those seen earlier in the year. Subsequently, service providers registered weaker expectations regarding the outlook for output, as confidence dropped to a 22-month low. Nevertheless, companies expanded workforce numbers at a solid pace, with sufficient capacity allowing firms to work through backlogs of work effectively.

Inflationary pressures remained historically elevated during July, but eased further. Input costs and output charges increased at the slowest paces for five and 16 months, respectively.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index registered 47.3 in July, up slightly from the earlier released 'flash' estimate of 47.0, but down from 52.7 in June. The latest headline reading signalled the fourth successive decline in the seasonally adjusted index, marking a notable contrast seen from the steep expansions earlier in the year. The decrease in business activity was the first since June 2020 and solid overall. Where firms reported a contraction in output, this was linked to relatively subdued demand, worsening financial conditions and higher prices.

Although service providers recorded a renewed rise in new orders at the start of the third quarter, following a marginal decline in June, the rate of growth was only slight overall. Higher new business was attributed to the acquisition of new customers, but some firms continued to highlight customer hesitancy amid reductions in purchasing power.

The rise in total new orders was driven by the domestic market, as new export orders contracted for the second month running. The impact of inflation on foreign customer spending and travel hampered sales, with new business from

Comment

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

"US economic conditions worsened markedly in July, with business activity falling across both the manufacturing and service sectors. Excluding pandemic lockdown months, the overall fall in output was the largest recorded since the global financial crisis and signals a strong likelihood that the economy will contract for a third consecutive quarter.

"Tightening financial conditions mean the financial services sector is leading the downturn, with a further steep rise in interest rates from the FOMC since the survey data were collected likely to intensify the downturn. Higher interest rates, alongside the ongoing surge in inflation, have meanwhile spilled over to the consumer sector, meaning the surge in household spending on goods and activities such as travel, tourism, hospitality and recreation seen in the spring has now moved into reverse as household spending is diverted to essentials.

"Although employment continued to rise in July, the rate of job creation has also slowed sharply since the spring and looks set to weaken further in the coming months as firms cut operating capacity in line with weakening demand.

"The flip side of deterioration in demand is a welcome alleviation of price pressures, which hint at a peaking of inflation."

abroad falling at the second-fastest rate since December 2020.

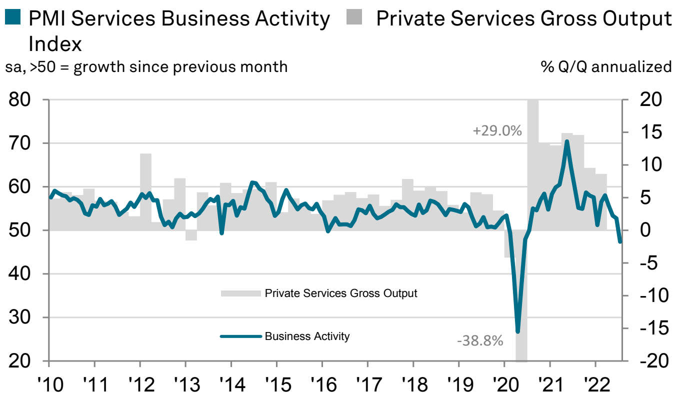
Average cost burdens at service providers increased markedly in July, albeit at the slowest pace for five months. Input price hikes reportedly stemmed from higher fuel, energy, wage and transportation costs. Although softer, the rate of inflation was quicker than any seen before May 2021.

Service providers continued to pass on higher cost burdens to clients, as output charges rose at an historically elevated pace. Mirroring the trend for input prices, however, the rate of selling price inflation eased to the slowest since March 2021.

Meanwhile, output expectations regarding the year ahead outlook weakened during July. The degree of confidence dropped to the lowest since September 2020, as concerns relating to inflation and wider economic conditions dampened optimism.

Services firms raised workforce numbers further, as companies sought to fill vacancies. That said, the pace of job creation was the slowest since January amid reports of struggles to find suitable candidates and, in some instances, the non-replacement of voluntary leavers in an effort to cut costs.

Sufficient capacity to process incoming new business was reflected in a second successive monthly decline in backlogs of work in July. The decrease quickened to the sharpest since May 2020 and was solid overall.



Sources: S&P Global, US Federal Reserve.

S&P Global US Composite PMI™

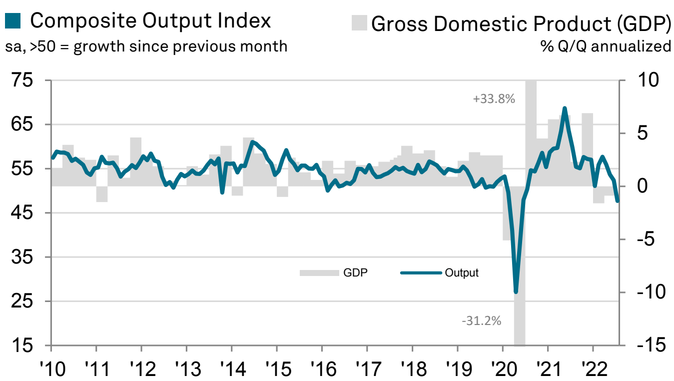
Private sector output contracts at fastest pace for over two years

The S&P Global US Composite PMI Output Index* posted 47.7 in July, down from 52.3 in June to signal a renewed contraction in private sector business activity. The decline in output was the first since June 2020 and broad-based.

Despite a decrease in manufacturing new order inflows, total sales rose during July, as service providers signalled a return to growth in client demand. New export orders weighed on overall new business again, as foreign client demand deteriorated.

Although still rising markedly, the rate of cost inflation softened to the slowest for six months. Hikes in input prices were linked to higher fuel, transportation, wage and material costs which continued to be passed through to customers. Nonetheless, output charges increased at the slowest pace since March 2021.

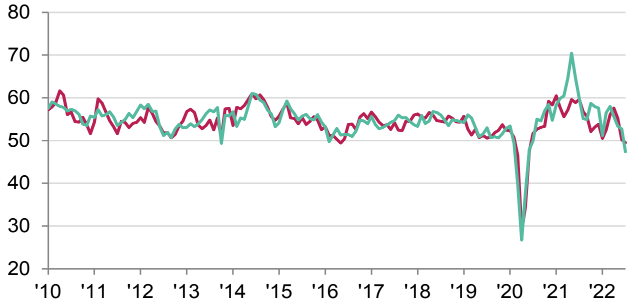
Private sector firms expanded their workforce numbers at the slowest pace since January. Pressure on capacity eased at service providers, while manufacturers only recorded a slight uptick in work-in-hand.



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

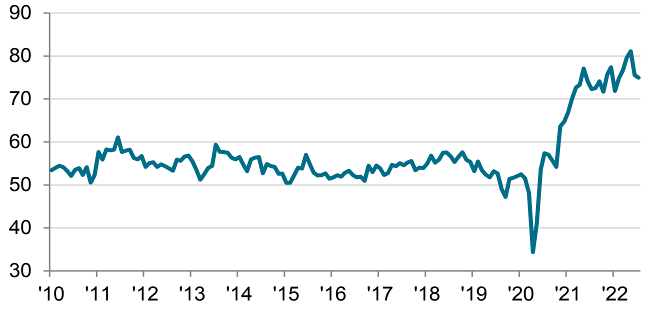
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Manufacturing PMI Output Index
Services PMI Business Activity 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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