# News Release

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# S&P Global US Services PMI™

## Business activity growth eases as demand conditions soften in July

### Key findings

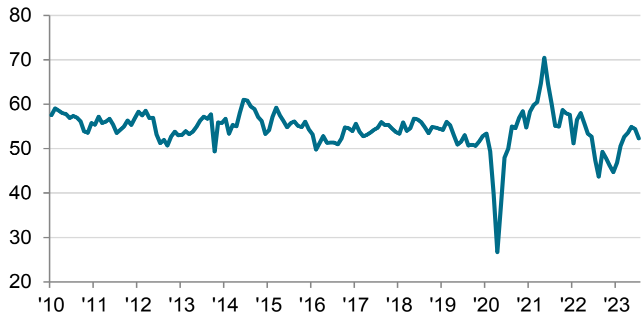
Slower rise in new business despite sharper uptick in exports

Input cost inflation eases but selling prices rise at faster pace

Employment growth weakens

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month




Data were collected 12-27 July 2023.
Source: S&P Global PMI.

US service providers reported a further expansion across the sector at the start of the third quarter, according to the latest PMI™ data from S&P Global. Business activity and new orders increased again, albeit at slower rates, as high interest rates in particular reportedly weighed on domestic customer spending. Nonetheless, new export business rose at a sharper pace, supporting a sustained upturn in total new sales. In line with a softer rise in new orders, firms increased employment only marginally amid a renewed contraction in backlogs of work. At the same time, services firms expressed the least upbeat expectations for output over the next year in 2023 so far.

Meanwhile, cost pressures softened. Input prices rose at the slowest pace since December 2022, but firms hiked output charges at a faster pace.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index posted 52.3 at the start of the third quarter, down from 54.4 in June. The latest data signalled a modest and slower expansion in business activity at service providers. The rate of growth was the softest since February and weaker than the long-run series average. Nonetheless, greater output was attributed to a sustained increase in new orders and continued demand from existing customers.

New business at service sector firms grew for the fifth month running in July, and at a marginal pace. The expansion was linked to a larger customer base and accommodative demand conditions. That said, the pace of increase slowed notably from that seen in June and was well below the series trend rate. Firms often stated that high interest rates dragged on domestic customer spending.

New export orders rose at a sharper pace, however. New business from abroad increased for the third successive month and at a solid pace amid reports of stronger demand from foreign customers.

On the price front, input costs at service providers increased

### Comment

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

*"The service sector remains the main engine of growth in the US economy, though there are signs of the motor spluttering amid rising headwinds. Business activity rose in July at the slowest rate since February, with the rate of expansion sliding further from May's recent peak in response to sharply reduced growth of new business. Although spending from foreigners in the US continues to grow strongly as the post-pandemic travel surge shows signs of persisting, demand growth waned from domestic customers, often linked to the rising cost of living and higher interest rates.*

*"Reflecting concerns that the upturn is faltering, companies have become much less optimistic about the outlook and reined-in their hiring as a result.*

*"An additional concern is that prices charged for services rose at an accelerated rate in July, often linked to higher staff costs. Such a wage-led stickiness of inflation in the vast service sector will naturally worry policymakers.*

*"With the weakening service sector expansion accompanied by a near-stalled manufacturing sector, the overall message from the surveys is that economic growth weakened at the start of the third quarter, cooling to an annualized rate of around 1.5%. The survey's price gauges, however, continue to signal a stubbornness of inflation around the 3% mark."*

PMI™ by S&P Global

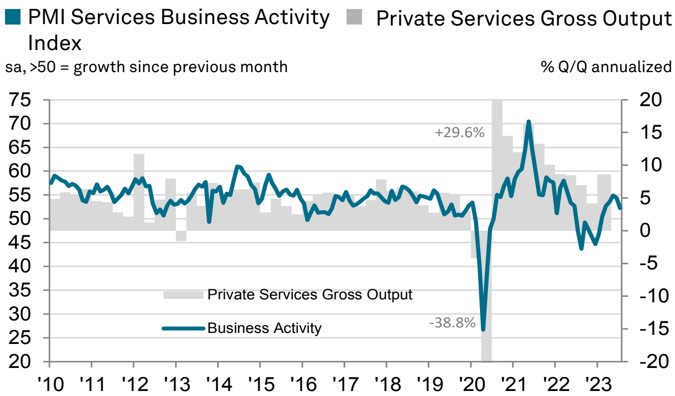
at a further marked pace during July. The rise was historically elevated and driven by higher wage bills and supplier prices. Although substantial, the rate of increase was weaker than seen in June and much slower than those seen through 2021 and 2022. Following a brief acceleration in pace during June, the rate of increase eased to the second-slowest since October 2020.

Similarly, selling prices continued to rise at a pace that was faster than the series trend in July. That said, the rate of selling price inflation accelerated from that seen in June and was marked overall. Companies often noted that higher charges stemmed from the pass-through of higher costs to customers, notably relating to wages.

Pressure from rising wages and challenges finding suitable candidates dampened employment growth during July. Service sector firms recorded a further rise in staffing numbers, but the rate of job creation was the slowest since January. Workforce numbers have increased in successive months for three years, however, with companies attributing hiring to greater new orders.

Despite a slower uptick in employment, service providers were able to manage their workloads, as backlogs fell in July. The decrease in outstanding business was only marginal but was the second decline in the last three months.

The outlook for activity over the coming year at service providers was upbeat overall in July. Planned increases in marketing spending, alongside hopes of greater client demand and stabilization in interest rates, reportedly underpinned optimism. The degree of confidence slipped sharply to the lowest since December 2022, however, amid concerns regarding future demand conditions.




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

# S&P Global US Composite PMI™

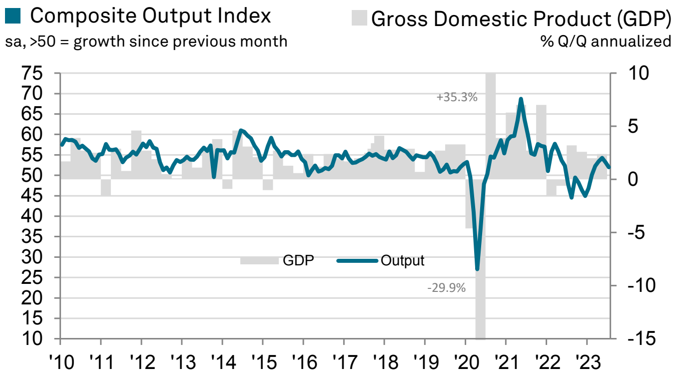
## Output expansion eases to slowest since February

The S&P Global US Composite PMI Output Index* posted 52.0 in July, down from 53.2 in June, to signal only a modest upturn in private sector business activity. Although manufacturers moved out of contraction territory, overall growth was dampened by a slower expansion at service providers.

The softer rise in output reflected a weaker uptick in new orders in July. The rate of growth was the slowest in four months and below the series average as high prices and rising interest rates reportedly continued to hamper customer spending. A stronger rise in services new export orders, however, led to a renewed increase in total new business from abroad. This ended a 14-month sequence of decline.

Inflationary pressures remained historically elevated in July, as service providers in particular continued to register marked increases in input costs and output charges, often attributed to hikes in wages.

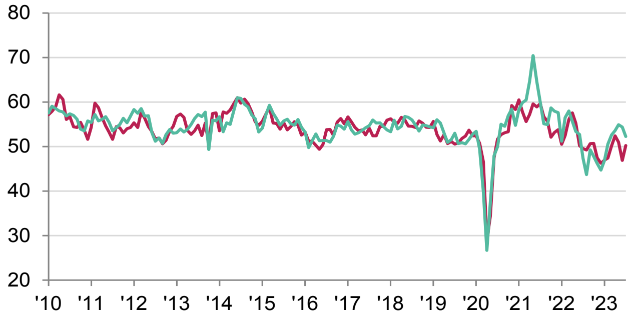
While firms continued to expand their staffing numbers, with manufacturers seeing a solid rise in employment, reduced pressure on capacity dampened the pace of job creation, pushing the overall rate of employment growth to the weakest since January.




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

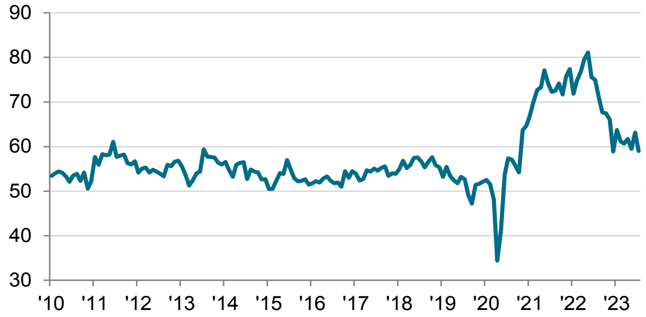
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

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@ihsmarkit.com.

**About S&P Global**
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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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