

News Release

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S&P Global US Services PMI™

Decline in business activity gains pace in December, as demand conditions worsen

Key findings

Activity and new orders fall at sharper rates as demand wanes

Cost burdens rise at softest pace for over two years

Employment growth only marginal

US service providers signalled a sharp fall in business activity at the end of the year, according to the latest PMI™ data. Output levels declined further amid weak demand conditions and another monthly drop in new orders. Domestic and foreign client demand contracted as economic uncertainty and high interest rates led to reduced customer spending. Subdued demand resulted in muted business expectations for output over the year ahead, as concerns regarding inflation and the future order pipeline dampened confidence. Although employment continued to rise, the pace of job creation was only marginal overall as cost saving initiatives and lay-offs weighed on hiring.

Meanwhile, rates of input price and output charge inflation eased to the slowest paces since October 2020. Reductions in costs for some inputs were passed through to customers in an effort to remain competitive and drive sales higher.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index registered 44.7 at the end of the year, down from 46.2 in November, but up slightly from the earlier released 'flash' estimate of 44.4. The rate of decline in output accelerated for the third month running and was the second-fastest since May 2020. Lower business activity was commonly attributed to a further reduction in new orders, as client demand weakened due to the impact of higher interest rates and inflation on customer spending.

Service sector firms continued to record a contraction in new business in December. Lower purchasing power among clients reportedly drove the latest downturn in new orders. The decline in customer demand was strong overall and the steepest in over two-and-a-half years.

At the same time, new export orders fell further in December, albeit at the slowest pace for three months. Anecdotal evidence suggested that global economic uncertainty and high inflation in key export markets hampered new export sales.

S&P Global US Services Business Activity Index
sa, >50 = growth since previous month



Data were collected 06-21 December 2022.
Source: S&P Global.

Comment

Siân Jones, Senior Economist at S&P Global Market Intelligence, said:

"US private sector firms brought 2022 to a close signalling marked obstacles to overcome with relation to the health of the economy. Contractions in output and new business were broad-based and gathered pace in December as customer unease led to dwindling demand and order postponements.

"Despite weak demand conditions, firms continued to hire staff. Nonetheless, the pace of job creation was only slight as some firms turned their focus to filling temporary worker and long-held skilled jobs vacancies, whilst others reported instances of employees being laid off.

"A notable development through the month was a stark easing in inflationary pressures across the private sector. Muted demand for inputs led to the least marked uptick in costs for over two years, while companies also saw a slower increase in selling prices in a bid to entice customers and boost sales. The pass through of cost savings in the form of customer discounts will likely signal further adjustments to inflation as we enter 2023."

PMI™

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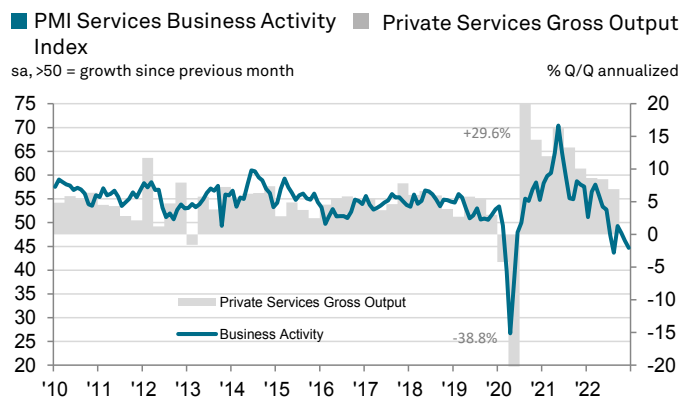
On the price front, cost pressures softened notably at the end of 2022. Service providers stated that although supplier and wage bills rose sharply, this was partly offset by reductions in some key input prices. The rate of cost inflation moderated to the slowest since October 2020 and was only slightly quicker than the series average.

Firms sought to pass through cost savings, where applicable, in an effort to drive sales higher and remain competitive in December. The pace of increase in output charges eased for the eighth month running. Selling prices at service sector firms rose at the slowest rate in over two years.

In line with lower new order inflows, service providers moderated their hiring activity during December. The rate of job creation was only marginal overall and the second-slowest since September 2021. Although some companies reportedly hired skilled and temporary staff, others mentioned that redundancies and the non-replacement of voluntary leavers dampened employment growth.

Backlogs of work declined for the third month running, as lower new order volumes allowed firms to work through incomplete business.

Finally, service sector firms registered optimistic expectations regarding the year ahead. That said, the degree of confidence was below the series average amid concerns surrounding inflation, high interest rates and future demand conditions.



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

S&P Global US Composite PMI™

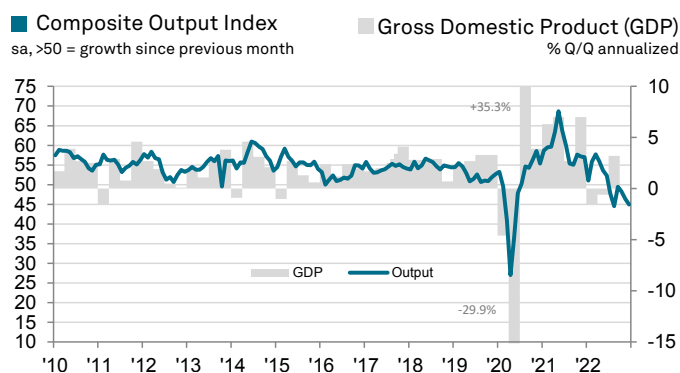
Strong fall in private sector output in December

The S&P Global US Composite PMI Output Index* posted 45.0 in December, down from 46.4 in November. The latest data indicated a strong decline in private sector business activity, with output falling at quicker rates in the manufacturing and services sectors.

Driving the fall in output was a sharper contraction in new business. The decrease was the fastest seen since May 2020 amid a broad-based downturn in client demand. A further decline in new export orders weighed on total sales.

Inflationary pressures eased notably at the end of the year, as cost burdens rose at the slowest pace since October 2020. Some firms mentioned the pass through of cost savings to their customers in an effort to remain competitive, with selling prices rising at the softest rate in over two years.

Subdued demand conditions and a solid fall in backlogs of work led private sector firms to increase their workforce numbers at a slower pace in December. The rise in employment was only marginal overall and the second-weakest since September 2021.

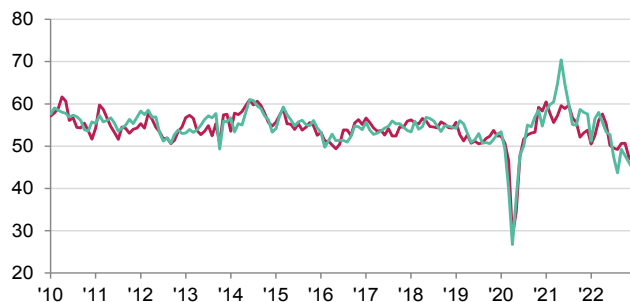


Sources: S&P Global, Bureau of Economic Analysis.

*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

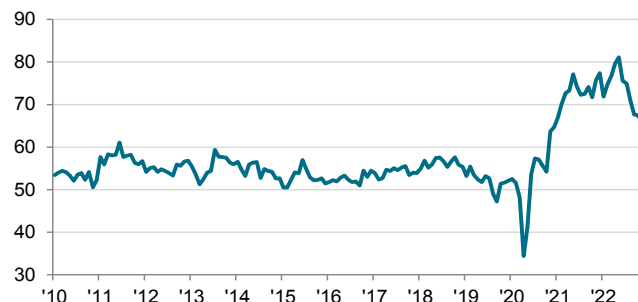
sa, >50 = growth since previous month



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.

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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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