

S&P Global US Services PMI[®]

Stronger job creation despite slowdown in output growth at start of 2025

Job creation hits 31-month high

Weaker rises in activity and new business

Inflationary pressures strengthen

The US service sector remained in growth territory at the start of 2025, despite posting weaker rises in both activity and new orders.

Companies expressed confidence in the outlook and took on extra staff to the largest degree in more than two-and-a-half years. Meanwhile, inflationary pressures strengthened.

The seasonally adjusted S&P Global US Services PMI[®] Business Activity Index posted 52.9 in January, down markedly from 56.8 in December but still signaling a solid monthly expansion in business activity in the service sector. Output has now increased on a monthly basis throughout the past two years, with the latest rise generally reflecting sustained new order growth.

The pace of output expansion slowed sharply, however, and was the weakest since April 2024. Some panellists reported that the unusually freezing weather conditions seen in parts of the country had been behind the slowdown in growth.

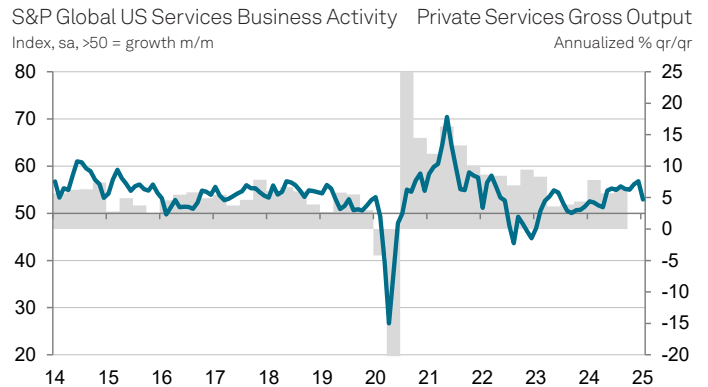
The securing of new customers and client approval of projects contributed to a ninth consecutive monthly rise in new business. Here too, the pace of expansion eased from December, but remained solid.

The rise in total new business was recorded in spite of a renewed decrease in new export orders, which fell for the first time in seven months. The pace of decline was only marginal, however.

As well as seeing growth of activity ease in January, there was also a slight reduction in business confidence at the start of the year, after optimism hit an 18-month high in December. That said, sentiment remained broadly in line with the series average. More than 42% of respondents predict an increase in activity over the coming year, while only 6% forecast a reduction.

In some cases, confidence was linked to the incoming administration, with economic conditions expected to improve. Marketing activity and increases in new orders were also central to business optimism.

Service providers looked to expand capacity at the start of 2025 and ramped up hiring accordingly. Employment rose for the second month running, with the rate of job creation



Data compiled 09-29 January 2025.

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Comment

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

"Service sector businesses reported a slowdown at the start of 2025, with activity levels growing at a reduced pace compared to the robust gains seen late last year. Looking at the manufacturing and services PMI surveys together, a 1.6% annualized GDP growth rate is signaled for January. That compares with a 2.4% growth signal for the fourth quarter of 2024, for which official data currently estimates a 2.3% GDP gain.

"However, at least some of this cooling off seems to be related to disruptions caused by unusually adverse weather, hinting that growth in the services sector could revive in February. A marked upturn in hiring further supports the view that robust growth should resume. Manufacturing output also staged a welcome return to growth during the month which, if sustained, should feed through to benefit affiliated services such as transportation and logistics.

"That said, the survey also recorded signs of softer demand conditions, notably where demand is heavily influenced by changing interest rate expectations, such as financial services. Business optimism has also cooled slightly, which is unlikely to have been influenced to the weather, reflecting some pull-back in the buoyant post-election optimism seen in December. It will therefore be interesting to watch the coming month's data to see if the post-election honeymoon of improved optimism and resurgent demand has started to wane.

"Meanwhile, hopes of more rate cuts will be further diminished by the combination of increased hiring, reports of labor supply difficulties, and an upturn in price pressures."

accelerating to the fastest since June 2022.

Despite stronger jobs growth, the recent period of rising new orders meant that capacity pressures remained evident in January. Outstanding business increased for the third consecutive month. The latest rise was slight, but more pronounced than seen in December.

Higher labor costs was the main factor behind a further sharp increase in input prices in January. The rate of inflation reached a three-month high and was broadly in line with the series average. Higher prices for materials and utilities were also recorded.

In line with the picture for input costs, the pace of output price inflation also quickened in January as companies passed through higher cost burdens to customers. The solid increase in charges was the fastest since last September.

S&P Global US Composite PMI®

The S&P Global US Composite PMI Output Index posted 52.7 in January, down from 55.4 in December but still signaling a solid monthly rise in business activity.

A renewed increase in manufacturing production coincided with a slower rise in services activity.

The rate of expansion in new business also eased in January, but the pace of job creation quickened and was the strongest since June 2022.

Meanwhile, both input costs and output prices rose at faster rates.

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.

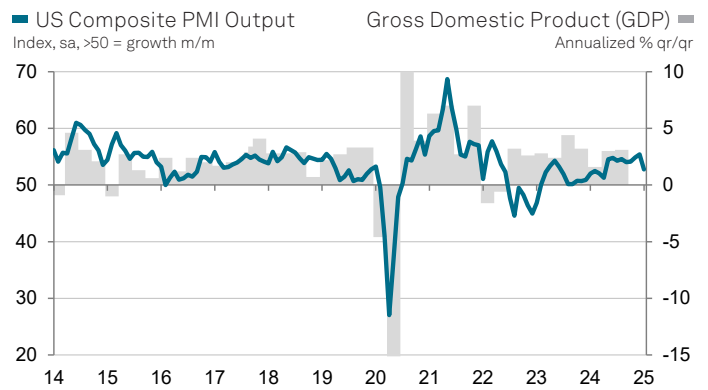
The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' 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@spglobal.com.

PMI by S&P Global

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