

S&P Global US Services PMI[®]

Output growth continues to slow in February as demand falters

Activity and new business increase only modestly
Confidence in outlook lowest since last September
Employment falls for first time in three months

US service sector activity continued to expand during February, but at a reduced pace as new business growth slowed again.

Weaker demand growth subsequently weighed on service sector expectations and, amid some worries and uncertainty over federal government policies related to trade and budgets, confidence in the outlook fell in February. At the same time, job cuts were recorded for the first time in three months.

Cost inflation also picked up in February as suppliers raised prices, although competitive pressures meant that service providers increased their own charges only modestly.

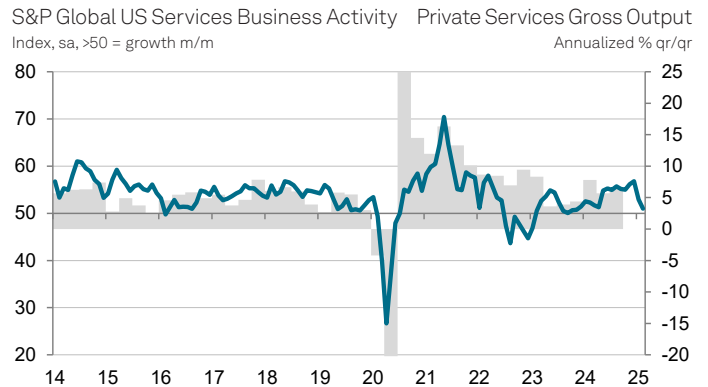
The seasonally adjusted S&P Global US Services PMI[®] Business Activity Index recorded 51.0 in February. Although above the critical 50.0 no-change to signal further growth of the sector, the rate of expansion was modest and the slowest since November 2023. Growth has softened noticeably in 2025 so far compared to the robust rates seen during the second half of last year.

Panelists widely linked the weaker rise in business activity to a concurrent slowdown in new business growth. Although still rising, extending the current run of expansion to 10 months, the rate of expansion was modest and the slowest in this sequence. Uncertainty related to federal government policies around trade tariffs were reported to have weighed on demand growth both at home and abroad. Concerning the latter, new export business declined for a second successive month in February and to the greatest degree since May 2024.

The weaker trend in new business, and broader economic uncertainty, weighed heavily on service sector business confidence. The latest data showed a steep deterioration in sentiment to its lowest since September, dropping well below its long-run trend in February. That said, firms still expect on average activity to rise from present levels in 12 months' time. Some panelists noted hopes that President Trump's new administration would generate an improvement in the business environment in the coming months.

Subdued trends in activity and new work meant firms were broadly unwilling to replace leavers in February and this was key in explaining a first modest drop in overall employment for three months.

Despite the reduction in headcounts, service providers were able to comfortably keep on top of their workloads.



Data were collected 10-26 February 2025.
Sources: S&P Global PMI, Bureau of Economic Analysis via S&P Global Market Intelligence. © 2025 S&P Global.

Comment

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

"The final PMI is an improvement on the earlier flash reading but still paints a worryingly weak picture of service sector business conditions compared to the buoyancy recorded late last year.

"Current output growth has downshifted markedly so far this year from a booming rate of expansion in December to a disappointingly sluggish pace in February.

"Expectations for output growth have also been revised sharply lower as service providers have become increasingly worried over signs of slower demand growth and uncertainty over the impact of new government policies, ranging from tariffs and trade policy to federal budget cutting.

"The strong private sector hiring seen late last year has consequently gone into reverse, with a steep fall in backlogs of work hinting at further job losses to come.

"Adding to the gloomier picture in February was a sharp rise in costs, which companies were often unable to pass on to customers due to weak demand. While this reduced pricing power is good news for inflation, it's potentially bad news for profitability."

Outstanding business declined in February for the first time since last August and to the greatest degree since December 2023.

A broad range of goods and services were reported to have risen in price during February, with suppliers in some cases increasing their charges due to tariffs. Labor expenses were also reported to have increased. Overall, input cost inflation picked up in February to its highest level for four months and further above its long-term trend.

However, efforts to pass on higher input costs to clients were somewhat limited by competitive pressures, weak market demand and market oversupply. This meant that prices charged rose only modestly overall in February and to the

S&P Global US Composite PMI®

The S&P Global US Composite PMI Output Index fell to 51.6 in February, down from 52.7 in January. It was the second successive month in which the PMI has fallen, and the latest reading was the lowest since last April.

Divergent trends were, however, seen at the broad sector level. Manufacturing output rose markedly, but service sector growth softened to a 15-month low.

Similar trends were seen for new business, whilst there was a service sector led decline in composite employment for the first time in three months.

Price data showed cost inflation hitting its highest level in five months, but output charges rose to a lesser degree.

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.

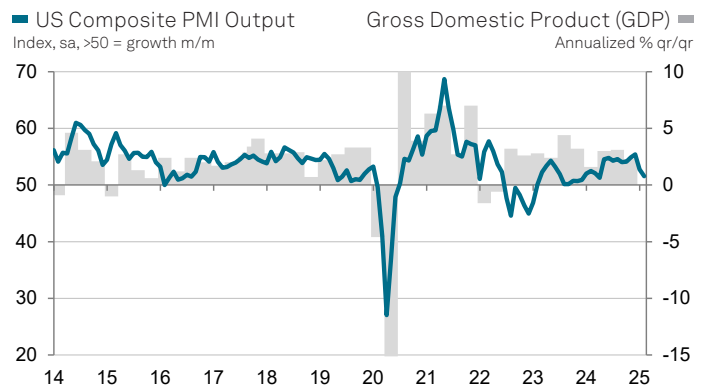
The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI'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

Chris Williamson
Chief Business Economist
S&P Global Market Intelligence
T: +44-20-7260-2329
chris.williamson@spglobal.com

Katherine Smith
Corporate Communications
S&P Global Market Intelligence
T: +1-781-301-9311
katherine.smith@spglobal.com
press.mi@spglobal.com

Paul Smith
Economics Director
S&P Global Market Intelligence
T: +44-1491-461-038
paul.smith2@spglobal.com

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