News Release

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S&P Global US Services PMI™

Business activity contraction eases at start of 2023, but cost pressures strengthen once again

Key findings

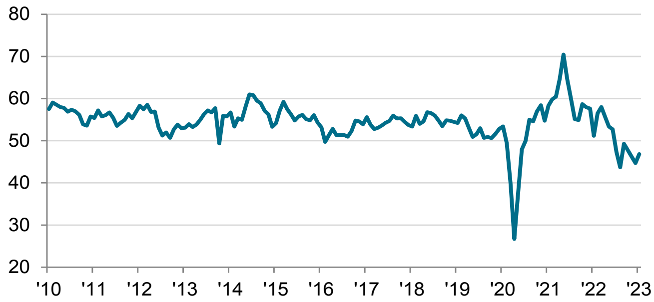
Demand conditions deteriorate at slower pace

Input price inflation accelerates for first time since May 2022...

...but selling prices rise at slowest rate since October 2020

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month



Data were collected 09-27 January 2023.
Source: S&P Global.

January data signalled a solid contraction in business activity across the US service sector at the start of 2023, according to the latest PMI™ data. Although easing, the fall in output stemmed from further weak domestic and external demand conditions, as new business and new export orders declined. Firms continued to expand their workforce numbers despite another fall in backlogs of work, but the pace of employment growth slowed further amid reports of cost-cutting efforts. Nonetheless, business confidence strengthened and was buoyed by increased spending on marketing and investment in cost efficiency.

At the same time, cost inflation picked up for the first time in eight months. A sharper rise in input prices was not reflected in a quicker increase in output charges, however, as selling prices rose at the slowest pace since October 2020.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index registered 46.8 in January, up from 44.7 in December and broadly in line with the earlier released 'flash' estimate of 46.6. Weak client demand hampered business activity, as output fell at a solid pace. Firms noted that inflation and high interest rates weighed on customer spending, with further reports of hesitancy in placing new orders. The rate of contraction softened to the slowest in three months, however.

New business fell for the sixth time in the last eight months, albeit at only a marginal pace. The decline in new orders was linked to lower purchasing power among customers amid strong inflationary pressures.

Alongside subdued domestic sales, new export orders also decreased in January. The rate of contraction in new business from abroad quickened and was among the sharpest since May 2020. Service sector firms stated that global economic uncertainty and high inflation in key export markets weighed on export sales.

Comment

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

"Business activity in the vast US services economy contracted in January as companies reported a further deterioration in new business inflows. Hiring has almost ground to halt as firms reassess their payroll needs in the light of the weaker demand environment.

"The downturn is being led by a slump in financial services activity, linked in turn to higher borrowing costs, with consumer-facing service providers also reporting especially tough business conditions amid the ongoing squeeze in spending due to the rising cost of living.

"Combined with the fall in manufacturing output recorded during the month, the service sector's downturn at the start of the year adds to the risk that the US economy could contract in the first quarter.

"The January survey meanwhile brought mixed messages on inflation. While costs were boosted in part by rising wage pressures, reflecting the tight labor market, tough competition once again limited scope to pass on these higher costs to customers in the form of higher prices."

PMI™ by S&P Global

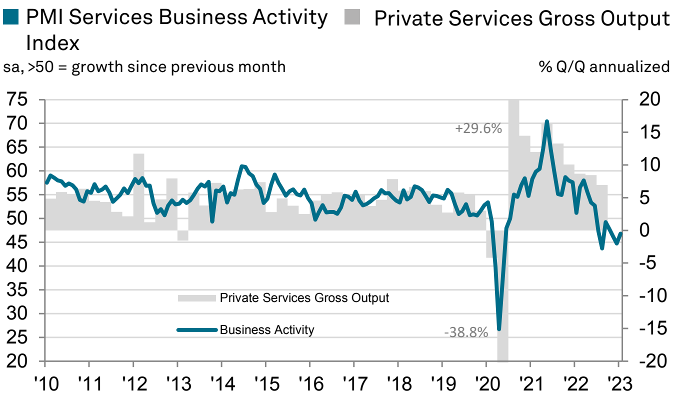
Cost pressures intensified in the opening month of 2023, thereby bringing an end to a seven-month sequence of easing input price inflation. Higher cost burdens were often linked to increased material prices, but service providers also commonly mentioned upticks in wage bills. The rate of cost inflation was historically elevated, but the second-slowest since November 2020.

Efforts to boost sales and remain competitive reportedly hampered firms' ability to hike output charges in January, despite a marked rise in input prices. The rate of charge inflation was broadly in line with the long-run series average, and the slowest since October 2020. The pace of increase in selling prices moderated for the ninth successive month.

Employment across the service sector increased further during January, thereby extending the current sequence of job creation that began in July 2020. That said, the pace of growth slowed to only a slight pace. Efforts to rein in costs and challenges retaining staff at the current salary level reportedly hampered workforce numbers.

Meanwhile, service providers registered another monthly decline in backlogs of work in January. The rate of contraction was modest overall and matched that seen in December.

Finally, business optimism improved at the start of the year. Service sector firms recorded stronger expectations regarding the outlook for output over the coming year. Hopes of greater new orders, investment in cost-saving methods and increased spending on marketing were often linked to positive sentiment.



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

S&P Global US Composite PMI™

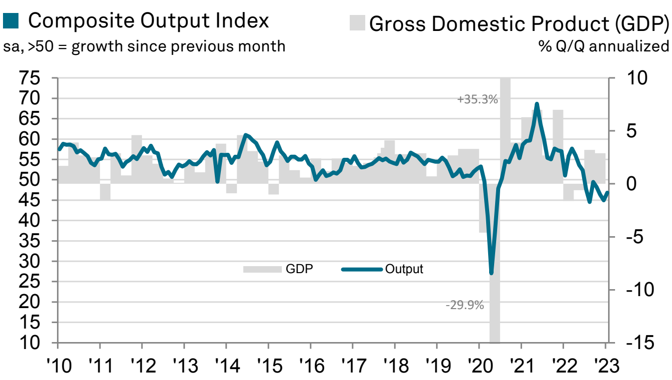
Private sector output declines at slowest pace in three months in January

The S&P Global US Composite PMI Output Index* posted 46.8 in January, up from 45.0 in December. The decrease in private sector business activity stemmed from contractions across the manufacturing and service sectors, with rate of decline in each easing slightly.

Total new orders fell modestly in January across the private sector. Weak domestic and foreign client demand hampered new business, as new export orders also decreased again.

Price pressures regained momentum at the start of the year, as the rate of cost inflation ticked higher. Although much slower than those seen throughout 2022, the pace of increase was marked overall. That said, in an effort to drive new sales, hikes in selling prices moderated again.

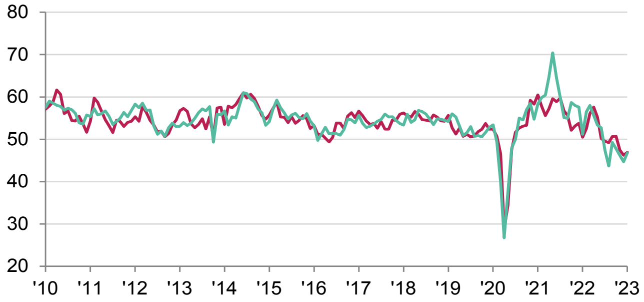
Reduced new orders and a further fall in backlogs of work led to only a marginal rise in employment in January. Firms reportedly sought to rein in spending amid weak demand conditions.



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

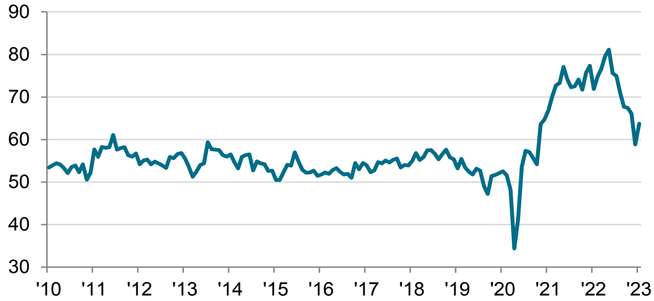
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

■ 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.

About S&P Global
S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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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