

News Release

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S&P Global US Services PMI™

Business activity declines at slower pace amid renewed rise in client demand

Key findings

Fall in output only marginal overall

Cost pressures softest since January 2021

Challenges hiring new staff drive increase in backlogs of work

US service providers signalled a much slower contraction in business activity during September, according to the latest PMI™ data. The fall in output was only marginal overall, as firms noted that improved demand conditions led to a weaker decline. New orders returned to growth, with domestic sales supporting the upturn, as new export business fell further. The rate of job creation softened to the slowest in 2022 to date, however, as challenges finding and retaining staff persisted. Labor and input shortages sparked a renewed rise in backlogs of work. Hopes of greater client demand, a peaking of inflation and investment in new products drove business expectations for the year-ahead to the highest for four months.

Meanwhile, cost pressures eased for the fourth month running amid reports of some reductions in input prices. Softer increases in operating expenses were mirrored in selling prices, which rose at the slowest pace since the end of 2020.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index registered 49.3 in September, up from 43.7 in August, and broadly in line with the earlier released 'flash' estimate of 49.2. The latest data indicated only a slight contraction in US service sector business activity, and the slowest in the current three-month sequence of decline. That said, September data rounded off the second-worst performing quarter for the sector since data collection began in 2009.

Supporting the softer fall in output was a renewed rise in new business at the end of the third quarter. Although only slight and below the series average, the upturn was linked to the acquisition of new customers and greater demand from existing clients.

That said, foreign client demand weighed on the overall rise in total sales as new export orders declined for the fourth month running in September. The fall in new orders

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



Data were collected 07-27 September 2022.
Source: S&P Global.

Comment

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

"With service sector activity declining for a third straight month in September, businesses have faced a tough third quarter. Economic growth has come under pressure from falling output in both the manufacturing and service sectors, though in both cases September has seen some encouraging signals that business conditions may be starting to improve.

"Driving this improvement is a cooling of inflationary pressures in manufacturing supply chains, which is in turn alleviating cost growth for goods and energy in both manufacturing and service sectors, helping stimulate demand and allaying some concerns about the economic outlook.

"The worry is that tightening financial conditions, and notably higher borrowing costs, are exerting increased cost pressures on households and businesses, as well as hitting growth in the vast financial services sector, which has seen the steepest downturns in both demand and business activity in recent months and saw yet another marked worsening of business conditions in September.

"Furthermore, despite easing, inflationary pressures in terms of firms' costs and average selling prices for goods and services remain elevated. With companies also reporting staffing issues and rising wages due to very tight labor market conditions, persistent inflation remains a concern at the same time that the economy appears to be struggling to regain momentum."

PMI™

by S&P Global

from abroad was linked to inflation, the strong dollar and challenging economic conditions in key export markets.

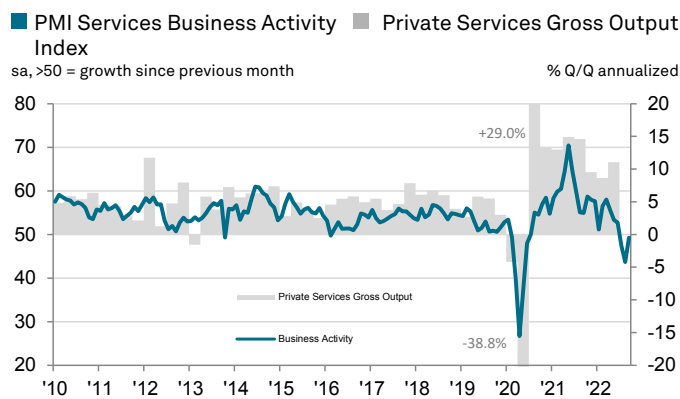
At the same time, firms registered slower increases in input costs and output charges during September. Although still historically elevated and linked to greater material, energy and wage expenses, the overall rate of cost inflation was the softest since January 2021. Companies highlighted lower prices for some inputs, especially imported items.

Reflecting efforts to drive new sales and pass on slower increases in input costs, selling prices rose at the weakest pace since December 2020. Despite firms passing on higher costs to clients, a number noted concessions and discounts made to customers to secure orders.

September data indicated only a modest rise in employment at service providers. The rate of job creation was the slowest since December 2021, as firms stated that challenges hiring new staff and difficulties offering high wages to retain certain employees hampered efforts to expand workforce numbers.

Subsequently, service sector firms recorded a renewed increase in backlogs of work. The expansion in the level of outstanding business was the first for four months, albeit only marginal.

Business expectations at service providers strengthened in September, with the degree of confidence in the outlook for activity in the year ahead reaching the highest since May. Hope of greater client demand and reports of investment in new product lines supported optimism.



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

S&P Global US Composite PMI™

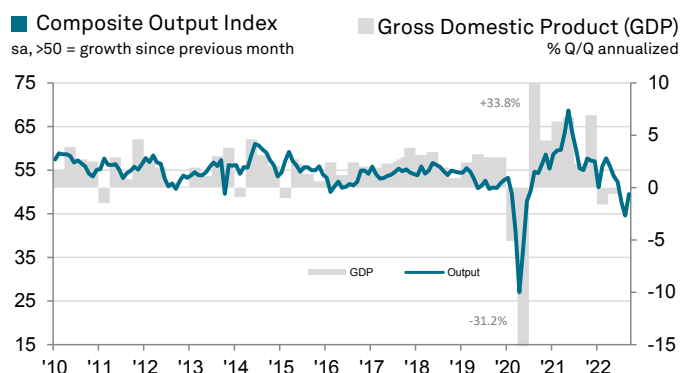
Private sector business activity contracts at slower pace in September

The S&P Global US Composite PMI Output Index* posted 49.5 in September, up from 44.6 in August, to signal a modest contraction in business activity across the private sector. A further decline in output at service providers outweighed a slight expansion at manufacturers.

Contributing to the softer decrease in output was a renewed rise in new business at private sector firms. The expansion was broad based, and driven by domestic demand as new export orders fell further.

Price pressures across the manufacturing and service sectors eased in September amid reports of some input costs falling which were passed on to clients in an effort to drive sales. Rates of inflation remained historically elevated, but among the slowest for almost two years.

Greater business confidence was led by service providers, whilst manufacturers were slightly more downbeat than in August amid inflation concerns.

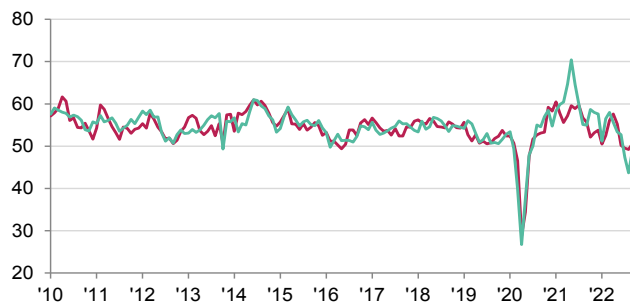


Sources: S&P Global, Bureau of Economic Analysis.

*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

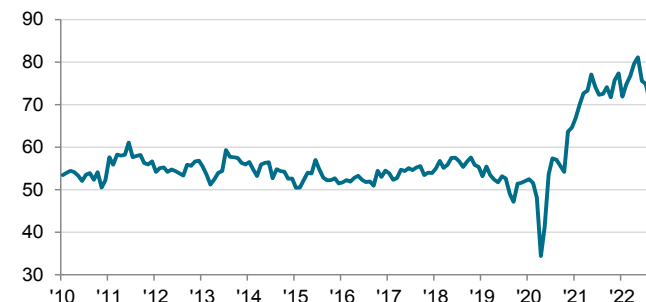
sa, >50 = growth since previous month



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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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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