S&P Global US Services PMI™

Business activity contracts at sharpest pace since May 2020 amid solid fall in new orders

Key findings
- Renewed decline in new orders drives faster fall in output
- Rates of input cost and output charge inflation ease further
- Employment growth slowest since January

August survey data signalled a sharp and quicker decline in business activity across the US service sector, according to the latest PMI™ data. The decrease in output stemmed from weak domestic and foreign client demand, as new orders returned to contraction territory. At the same time, weak inflows of new business led firms to moderate their hiring activity. Employment rose at the softest rate since January as backlogs of work contracted at the fastest pace in over two years. Although the degree of optimism picked up to a three-month high, it was below the series average as concerns regarding the impact of price rises on demand weighed on expectations.

On the price front, rates of input cost and output charge inflation eased to the slowest in a year-and-a-half. Concessions were reportedly made to clients amid decreases in some material costs and efforts to drive sales.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index registered 43.7 in August, down from 47.3 in July and lower than the earlier released ‘flash’ estimate of 44.1. The latest data signalled a steep fall in output across the US service sector, and the fastest fall in activity since May 2020. The further loss of growth momentum among service providers was linked to weak client demand and greater client hesitancy in placing new orders.

Service providers recorded a solid decline in new business in August, with new orders falling for the second time in three months. The rate of contraction was the sharpest for over two years and among the fastest on record. With the exception of the initial pandemic period, the fall was the quickest on record (since October 2009). The impact of high inflation and increased interest rates on client demand reportedly weighed on total sales.

The decrease in total new business coincided with a third successive monthly decline in new export orders midway through the third quarter. The downturn in new business

Comment

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

"August saw the US economy slide into a steepening downturn, underscoring the rising risk of a deepening recession as households and business grapple with the rising cost of living and tightening financial conditions. "

"Businesses are reporting a deterioration in output and order books of a degree exceeded since the global financial crisis only by that seen during the initial pandemic lockdowns."

"While orders are being lost across the board as a result of rising prices and the cost-of-living squeeze, the steepest downturn is being recorded in the financial services sector, reflecting the additional impact of higher interest rates and worsening financial conditions."

"Jobs growth has meanwhile cooled as companies grow increasingly reluctant to expand in the face of falling demand and an uncertain outlook, which will serve to further dampen growth in the coming months."

"One positive form the survey was a substantial fall in the rate of input cost inflation, which should help to moderate consumer price growth in the months ahead, albeit with the rate of increase remaining stubbornly elevated."
from abroad was linked to strains on client incomes in external markets.

Meanwhile, average cost burdens continued to rise at an historically marked pace during August. The increase in operating expenses was often attributed to higher transportation, wage and material prices, alongside hikes in interest rates. Nonetheless, amid reports of decreasing costs for some items, the rate of input price inflation moderated to the slowest since February 2021.

Subsequently, output charges at service providers increased at a substantial, but softer pace, in August. Firms continued to note the pass-through of higher costs to clients, but some companies stated that concessions were made to customers in an effort to drive new sales. The rate of charge inflation was the softest for a year-and-a-half.

Weak client demand led to a slower rise in employment during August, with the rate of job creation slipping to the softest since January. Pressure on capacity fell for the third successive month as backlogs of work were reduced at a strong rate. The decrease in the level of incomplete business was the steepest since May 2020.

Finally, business expectations regarding the outlook for output at service sector firms picked up to the highest for three months in August. Although optimism was buoyed by hopes of greater client demand and the diversification of business lines, the level of positive sentiment was below the series average amid concerns regarding inflation and interest rate hikes.

S&P Global US Composite PMI™

Contraction in private sector output accelerates in August

The S&P Global US Composite PMI Output Index* posted 44.6 in August, down from 47.7 in July, to signal a sharp contraction in business activity across the private sector. Although manufacturers also recorded a decline, the decrease was led by service providers.

In contrast to that seen in July, service sector firms registered a decline in new business in August. As a result, private sector new orders fell at the quickest pace since May 2020, while new export orders also fell at a solid pace.

Inflationary pressures eased further across the private sector, with average cost burdens rising at the slowest pace since January 2021. Output charges also increased at a softer rate as some firms sought to offer concessions to clients in an effort to drive sales.

Despite the degree of confidence rising to a three-month high, weak client demand led to a softer increase in employment in August. Pressure on private sector capacities waned as service providers recorded a strong fall in backlogs of work.

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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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