

News Release

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S&P Global US Services PMI[®]

Service sector expansion picks up, but demand conditions remain historically subdued

Key findings

Fastest upturn in new business since June spurs rise in activity

Employment growth joint-quickest in six months

Price pressures intensify but charges rise at slower pace

The US service sector signalled a quicker expansion in activity at the end of 2023, albeit only marginal overall, according to the latest PMI[®] data from S&P Global. The faster upturn in output stemmed from stronger demand conditions as new orders rose at the sharpest rate since June. Firms were buoyed by the improvement in the sales environment, as business confidence and hiring activity was adjusted upwards in response.

Service providers recorded a steeper rise in input costs, and one that was historically elevated, as higher wages and food prices drove inflation. Nonetheless, efforts to boost new sales led to a slower uptick in output charges. Selling prices increased at one of the weakest rates in over three years.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index posted 51.4 in December, up from 50.8 in November and broadly in line with the earlier released 'flash' estimate of 51.3. The rate of growth in output accelerated for the third month running and was the sharpest since July. Where an increase in activity was reported, firms linked this to an improvement in demand conditions and a greater rise in new orders. The pace of expansion was only marginal, however, and slower than the series average.

Service providers recorded a quicker expansion in new business at the end of 2023, as the rate of growth picked up to the fastest since June. Although only modest and historically muted, greater new orders were attributed to stronger client demand, with some stating this stemmed from increased advertising spending and a rise in customer referrals.

The overall upturn in new business was dampened by a renewed contraction in new export orders, however. The fall was the first since September and reportedly driven by lower purchasing power among customers in key export markets.

A quicker rise in total new orders led service sector firms to step up their hiring during December, as employment rose at a steeper pace. The rate of job creation was the joint-fastest

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month



Data were collected 06-20 December 2023.
Source: S&P Global PMI.

Comment

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

"Some New Year cheer is provided by the PMI signalling an acceleration of growth in the vast services economy, which reported its largest rise in output for five months in December. The improvement overshadows a downturn recorded in manufacturing to indicate that the overall pace of US economic growth likely accelerated slightly at the end of the year.

"Some support to financial services in particular is coming from the recent loosening of financial conditions amid growing hopes of interest rate cuts in 2024. Growth nevertheless remains subdued by standards seen over the spring and summer, with the struggling manufacturing sector dampening demand for business-to-business services and consumers remaining far less inclined to spend on luxuries such as travel and recreation than earlier in the year.

"The more challenging demand environment has dampened firms' pricing power, squeezing service sector selling price inflation to the lowest for over three years on average during the fourth quarter. With sticky service sector inflation being a key area of concern among Fed policymakers, the slower rate of price increase in December is welcome news."

PMI[®]

by S&P Global

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since June as firms sought to boost capacity in anticipation of greater activity in the coming months.

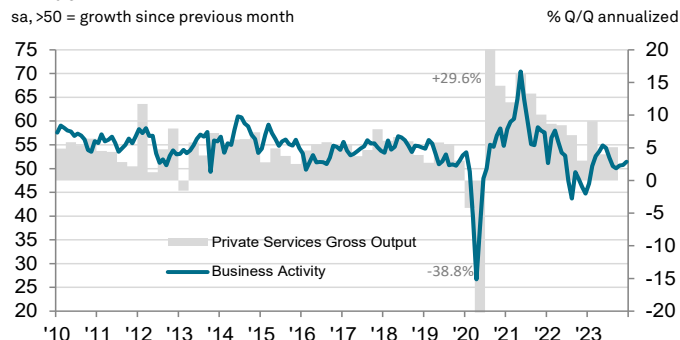
Increased staffing numbers aided service providers in their efforts to clear incomplete business. Backlogs of work fell for the sixth month running and at the fastest pace since September.

At the same time, greater wage bills and higher food and fuel costs led to a sharper rise in input prices at the end of the year. Cost burdens increased at the most marked pace for three months, with the rate of inflation historically elevated.

Efforts to drive new orders and spur client spending led to a softer uptick in selling prices. The pace of charge inflation remained steep in the context of the series history, but eased to one of the slowest in over three years.

December saw business confidence at service providers tick higher. Although still subdued relative to the series trend, the level of optimism was strong overall. Upbeat expectations for output over the coming year were underpinned by hopes of further upticks in client demand, anticipated reductions in interest rates and investment in advertising and new product development.

■ PMI Services Business Activity ■ Private Services Gross Output Index



Sources: S&P Global PMI, Bureau of Economic Analysis via S&P Global Market Intelligence.

S&P Global US Composite PMI®

Business activity rises only marginally, but at fastest pace since July

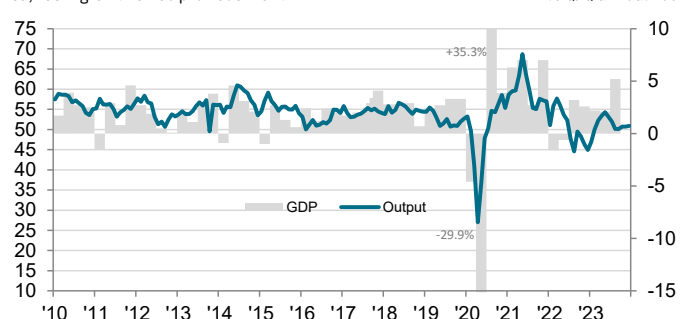
At 50.9 in December, the final S&P Global US Composite PMI Output Index* was up slightly from 50.7 in November and signalled a marginal expansion in business activity. The rise in output was driven by further growth in service sector activity, with manufacturers posting a renewed decline in production.

Similarly, there was a sectoral divergence in new order trends as service providers recorded a stronger uptick in new sales while goods producers registered a faster fall in new business. Foreign client demand dragged on the overall expansion amid a broad-based drop in new export orders.

On the price front, total input costs rose at a sharper rate in December as operating expenses at manufacturers and service providers increased at faster paces. Despite a steeper uptick in output charges among goods producers, a softer rise at service providers dampened the overall pace of increase in selling prices.

Meanwhile, employment growth at service sector firms outweighed a marginal drop in manufacturing workforce numbers. Pressure on capacity dwindled further as private sector firms depleted backlogs of work at a solid pace.

■ Composite Output Index ■ Gross Domestic Product (GDP)

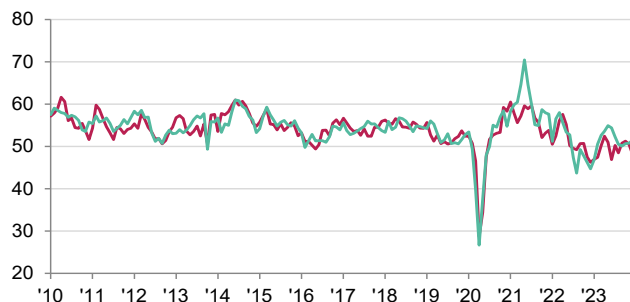


Sources: S&P Global PMI, Bureau of Economic Analysis via S&P Global Market Intelligence.

*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

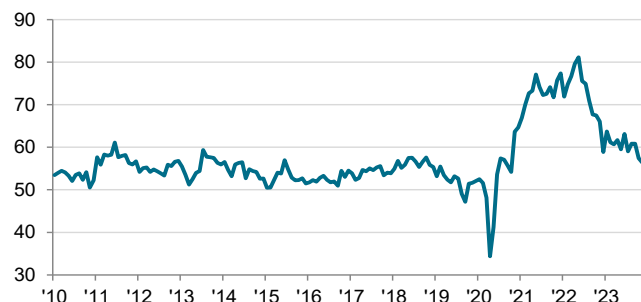
sa, >50 = growth since previous month



Source: S&P Global PMI.

US Services PMI Input Prices Index

sa, >50 = inflation since previous month



Source: S&P Global PMI.

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@spglobal.com.

About S&P Global

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi

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