News Release

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S&P Global US Services PMI™

Selling price inflation accelerates amid renewed upturn in output in February

Key findings

Activity returns to expansion, albeit at only a slight pace

Employment rises at fastest rate since September 2022

Selling price inflation accelerates despite softer rise in costs

February data indicated a renewed expansion in business activity across the US service sector, according to the latest PMI™ data. The rate of growth was only marginal overall, however, as new business continued to decline amid subdued domestic and foreign client demand. Nevertheless, service providers increased employment at the fastest rate since September 2022 as spare capacity waned. Backlogs of work were unchanged on the month, following four successive monthly contractions. Signs of improved demand patterns sparked an uptick in business confidence. Output expectations regarding the year-ahead outlook were the strongest since May 2022.

Concurrently, firms registered a softer, albeit still marked, rise in input costs. Selling prices increased at the steepest pace for four months, as companies sought to pass higher costs on to customers.

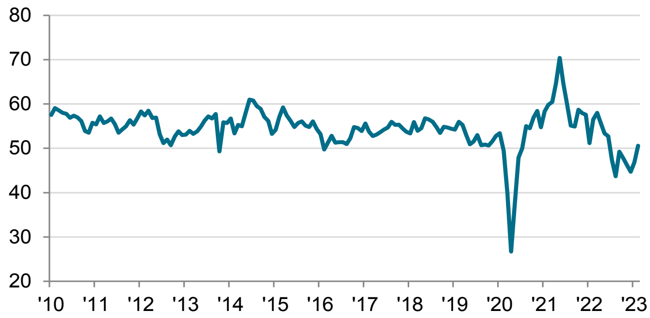
The seasonally adjusted final S&P Global US Services PMI Business Activity Index registered 50.6 in February, up notably from 46.8 in January and broadly in line with the earlier released 'flash' estimate of 50.5. The latest data signalled only a marginal uptick in business activity, but brought to an end a seven-month sequence of contraction. Where an increase in output was reported, firms linked this to signs of a pick-up in demand conditions and a slower fall in new orders, with some evidence of milder than usual weather also helping.

New business across the service sector continued to decrease during February, albeit at a softer rate. The impact of higher interest rates and inflationary pressures remained a drag on customer spending, according to survey respondents. Some reports of improving demand conditions led new orders to fall at the slowest pace since last October, however.

At the same time, new export orders declined for the ninth month running midway through the first quarter. Although

S&P Global US Services Business Activity Index

sa, >50 = growth since previous month



Data were collected 10-24 February 2023.
Source: S&P Global.

Comment

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

"A return to growth of US service sector business activity in February for the first time in eight months has offset a decline in manufacturing output, helping stabilize the economy and hopefully avert a downturn in the first quarter.

"The upturn was led by a revival in spending on services by consumers and improved activity in the tech sector, but was also aided by a marked cooling in the recent downturn in financial services.

"Across both services and manufacturing, jobs growth has risen to a five-month high as business confidence about the year ahead has perked up to its highest since last May, reviving further from the low-point seen last October. Clearly the gloom heading into the winter has been replaced with brighter prospects moving into the spring.

"This improving picture has, however, added to firms' pricing power. Having fallen to a 27-month low in January, the rate of inflation for goods and services re-accelerated in February to its highest since last October as companies reported greater success in passing higher costs on to customers."

PMI™ by S&P Global

falling at the slowest pace since last September, the pace of contraction was solid overall. Firms mentioned that challenging demand conditions and uncertainty in key export markets hampered any upturn.

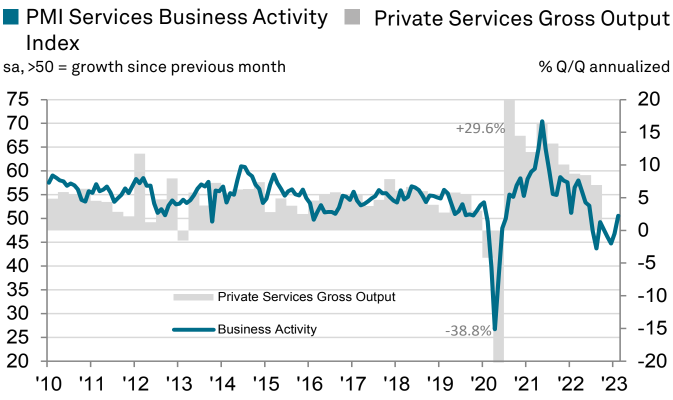
Greater output spurred on a faster rise in hiring activity during February. The rate of job creation was the quickest since September 2022, despite being only marginal overall. Some companies noted that greater availability of candidates supported the upturn.

Backlogs of work were unchanged on the month in February, following four successive monthly declines. A number of service providers stated that the slower fall in new orders led to a reduction in spare capacity.

Meanwhile, service sector firms registered a marked rise in cost burdens midway through the first quarter. The uptick in input prices was driven by supplier price hikes, higher wage bills and increased expenses following interest rate changes. Nonetheless, the pace of cost inflation lost momentum and was the second-slowest since October 2020.

Despite a softer increase in cost burdens, service providers raised their selling prices at a sharper pace in February. The rate of charge inflation was the quickest since October 2022 and strong overall. Survey respondents commonly noted that higher output charges were due to the pass-through of greater costs to clients.

Business expectations at service providers strengthened in February, as the outlook for output over the coming year was the most upbeat since last May. Positive sentiment was pinned on hopes of reduced inflation, the acquisition of new clients and increased investment in marketing.



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

S&P Global US Composite PMI™

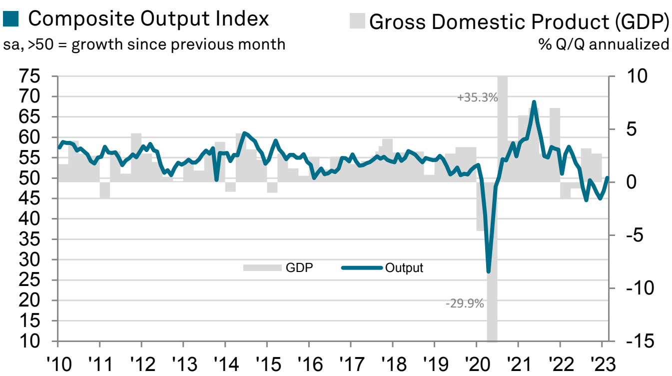
Stabilization in private sector output in February

The S&P Global US Composite PMI Output Index* posted 50.1 in February, up from 46.8 in January. The latest data signalled an end to a seven-month sequence of contraction and indicated broadly stable levels of business activity at private sector firms.

New orders continued to decline across the private sector, as manufacturers and service providers recorded further downturns in domestic and foreign client demand. The rate of decrease eased to the slowest in four months and was only marginal, however.

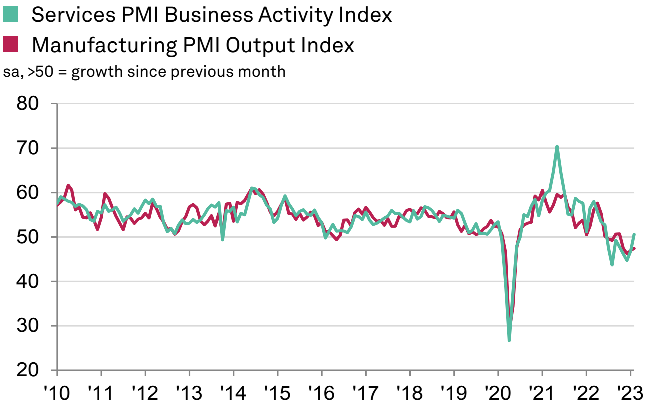
Cost pressures softened in February, as input prices rose at the second-slowest pace since October 2020. Nonetheless, firms sought to pass through higher cost burdens to their customers, as output charges increased at a steeper pace.

Meanwhile, manufacturers and service providers recorded faster expansions in employment in February. The rate of job creation was the quickest since September 2022. Although backlogs of work continued to fall, the pace of contraction was only slight and the slowest in the current five-month sequence of decline.

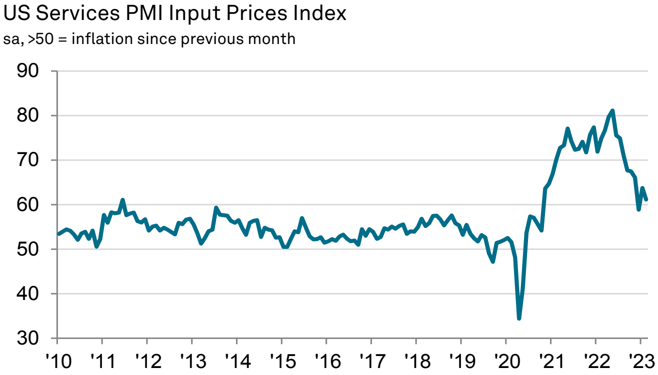


Sources: S&P Global, Bureau of Economic Analysis.

*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.



Source: S&P Global.



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

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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. ihsmarkit.com/products/pmi.html.

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