

News Release

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S&P Global US Services PMI™

Sharp upturn in business activity, but inflationary pressures strengthen to record high

Key findings

Output and new orders rise steeply despite growth easing

Input costs and output charges increase at record paces

Rate of job creation accelerates to strongest for a year

US service providers recorded a steep expansion in business activity during April, according to the latest PMI™ data. The rate of output growth eased to the slowest for three months, but was sharp overall. Similarly, higher selling prices weighed on client spending as the pace of new business expansion softened. Nonetheless, demand conditions remained strong and sparked the fastest rise in employment for a year as backlogs mounted at a near-record pace.

Meanwhile, input and labor shortages pushed up cost burdens to the greatest extent on record. In response, firms raised their output charges notably and at the sharpest pace since data collection began in October 2009. Concerns regarding inflation weighed on business confidence, which slipped to the lowest in six months.

The seasonally adjusted final S&P Global US Services PMI Business Activity Index registered 55.6 in April, down from 58.0 in March, but higher than the earlier released 'flash' estimate of 54.7. The latest upturn in business activity was sharp overall and quicker than the series average, despite easing to the slowest in three months. Where firms reported a rise in output, this was linked to strong demand conditions and a further increase in new orders. The loosening of COVID-19 restrictions boosted customer spending, according to panellists.

The rate of growth in new business also softened to a three-month low at the start of the second quarter, but was steep. Although higher selling prices dampened demand slightly, firms reported healthy sales volumes to new and existing clients.

Alongside strong domestic demand, new export orders rose at the quickest rate since data collection for the respective seasonally adjusted series began in September 2014. The easing of restrictions in key export markets reportedly boosted footfall and customer activity.

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



Source: S&P Global.
Data were collected 11-27 April 2022.

Comment

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

"Alongside the acceleration in manufacturing growth recorded by the S&P Global PMI in April, the sustained solid performance of the service sector points to GDP growth returning in the second quarter.

"Although the service sector lost some momentum in April, this merely reflects pay-back from the surge in spending seen at the end of the first quarter, when Omicron-related virus containment measures were eased.

"It's clear that growth could be even stronger if activity was not still be constrained by supply chain bottlenecks and labor availability issues. Domestic demand remains buoyant among both households and businesses in spite of current inflationary pressures, and exports are being boosted by pent-up pandemic demand as global travel restrictions are eased. Exports of services grew in April at the fastest rate since data were first collected in 2014.

"The consequence of demand running ahead of supply is higher prices, with average charges levied for services rising at a sharply increased and unprecedented rate in April following a record increase in firms' costs. Enjoying strong demand, firms were increasingly able to pass on higher energy, materials and staff costs to customers, indicating an economy that continues to run hot."

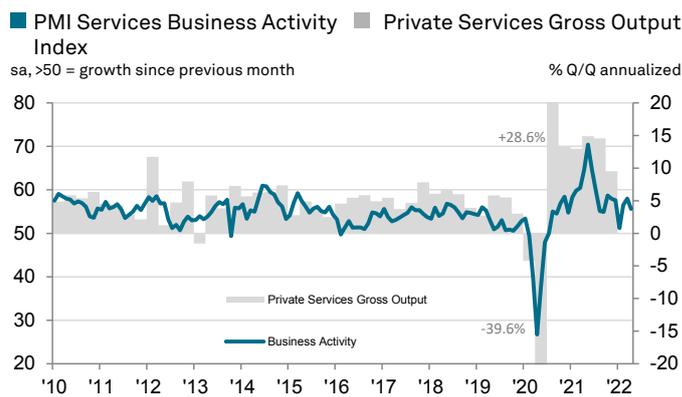
At the same time, cost burdens rose substantially in April. Higher wage, transportation and material costs drove up input prices. Service providers mentioned greater food, energy and fuel costs in particular. The rate of input price inflation accelerated for the third successive month to the fastest in 11-and-a-half years of data collection.

Subsequently, services firms increased efforts to pass-through higher cost burdens on to clients through hikes in selling prices. The pace of charge inflation accelerated notably, and for the fourth month running, to the fastest on record.

Meanwhile, further upticks in new orders and business requirements resulted in another increase in employment at service providers. The rate of job creation quickened to the sharpest for a year and was sharp overall.

Backlogs of continued to rise, thereby extending the current sequence of expansion that began in July 2020. Although employment increased, some firms highlighted that ongoing labor shortages hampered progress with depleting incomplete business. Companies also stated that input delivery delays put pressure on capacity. The rate of growth in unfinished business was broadly in line with that seen in March and the second-fastest on record.

Services firms remained upbeat regarding the outlook for output over the coming year in April. Hopes of increased client demand and greater opportunities to fill vacancies spurred optimism. That said, the degree of business confidence slipped to a six-month low amid concerns regarding inflation.



S&P Global US Composite PMI™

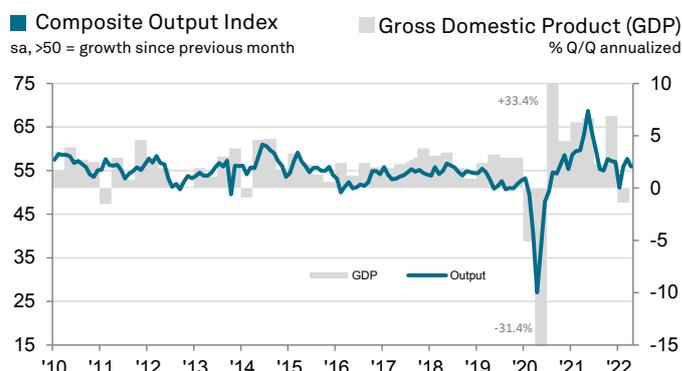
Sharp rise in private sector business activity in April

The S&P Global US Composite PMI Output Index* posted 56.0 in April, down from 57.7 in March. Although slightly slower than the upturn at the end of the first quarter, the rise in overall output was sharp overall. A faster expansion in manufacturing production was offset by softer service growth.

Similarly, the overall expansion in new business eased following a slower upturn in service sector new orders. Nonetheless, the rise in new sales was sharp as domestic and foreign client demand strengthened. New export orders rose at the fastest pace since May 2021.

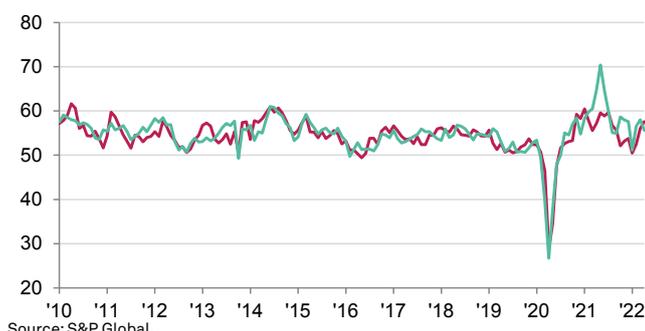
Meanwhile, inflationary pressures intensified further in April. Input prices and output charges increased at the sharpest rates on record. Material and labor shortages, alongside greater transportation costs drove the rise in prices.

Although firms registered a further rise in employment, labor shortages continued to be highlighted. As a result, backlogs of work grew at a sharp pace.



*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.

■ Manufacturing PMI Output Index
■ Services PMI Business Activity 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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