

ISM Services PMI Continues to March Higher, 56.0 for October 2024 is Highest Since August 2022

- **The ISM Services PMI rise to 56.0 in October 2024**
- **Employment led gains for the October 2024 ISM Services PMI, regaining expansionary territory at 53.0**
- **Business Activity and New Orders both weakened in October 2024 but remained in expansionary territory**
- **Cost pressures remained high in October 2024 for service providers, but the Prices component of the ISM Services PMI fell marginally to 58.1**

The ISM Services PMI posted its third consecutive monthly improvement in October 2024, rising to 56.0. October's reading is the strongest for the ISM Services PMI's topline gauge since August 2022. Hiring was the only positive headline contributor to the topline index for October, as the Business Activity and New Orders components of the topline index both declined versus the month prior – altogether indicating an anticipated ramp-up in holiday spending for service providers.

The ISM Services PMI diffusion index indicates the net percentage of manufacturers who are experiencing expanding or contracting activity across various categories, with a reading below 50 revealing net contraction across services sectors.

The ISM Services PMI's Employment component index rose in October 2024 to a reading of 53.0. This is the strongest result for this sub-index since September 2023 (53.4), and follows September's contractionary reading of 48.1. In fact, seven (7) out of the past 10 months' worth of Employment sub-index readings prior to October 2024 had fallen below the breakeven expansionary threshold of 50. Topline inflation – *including* the food & energy costs that the Fed cuts out of their policy-setting Core Inflation metric but which are nonetheless critical to household balance sheets – has trended steadily downward since March of this year, likely instilling confidence among consumers that still-rising wages will be re-establishing purchasing power entering the new year. Services businesses appear to be extrapolating that assumption to the final months of 2024 and look to be adding workers to meet that demand as a result.

Service providers' cost pressures eased somewhat in October 2024, according to the ISM Services PMI's Prices component index which fell to 58.1 for the month. October's decline follows September's reading of 59.4, which was the highest for the Prices sub-index since January 2024 when concerns over a stalled decline in inflation were making headlines. Wage pressures remain a concern for businesses across services sectors, with year-over-year wage increases still outpacing consumer price inflation – and thus businesses' ability to

efficiently pass their own costs to consumers. Leisure & Hospitality industry workers saw wage gains at 3.2% versus one year ago in October 2024, according to the Bureau of Labor Statistics, while Professional & Business Services workers are riding an accelerating trend of wage growth which topped 5.0% in October. Loosening labor market conditions look likely to ease wage pressures in 2025, but service industry businesses will still have a balancing act to perform between their own still-rising costs and their waning ability to pass on those costs to consumers as inflation continues to normalize.

PNC expects a 25 basis point rate cut from the Fed out of this week's Federal Open Market Committee meeting. This move will signal the Fed's commitment to bringing borrowing rates for businesses back toward what they feel is a neutral interest rate policy setting, as opposed to either incentivizing or restricting business through the manipulation of borrowing costs. A trend of steadily lower rates from the Fed through mid-2025 will help businesses plan for the next phase of the business cycle, which will be a resumption of consumer demand after households level-set their budgets in the fallout from extended high inflation and plenty of discretionary spending despite rising prices. For service providing businesses, this measure of predictability will support their planning efforts to balance cost pressures with steady consumer demand. The ISM Services PMI report should remain firmly in expansionary territory across all major categories through the coming months as a result of this renewed stability.

PNC Economics

economics@pnc.com

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