Economic Update

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ISM Services PMI Slipped to 52.1 for November 2024, Expansion Intact but Momentum Slowed Across Components

- **The ISM Services PMI fell to 52.1 in November 2024**
- **Employment gains eased in November 2024, clinging to expansion at 51.5**
- **Business Activity and New Orders both weakened for a second consecutive month in November 2024**
- **Cost pressures continued to trend higher for service providers in November 2024, rising marginally to 58.2**

The ISM Services PMI broke a three-month streak of gains in November 2024, falling to 52.1 after reaching a two-year high in October. Though remaining in expansionary territory, the Employment, Business Activity and New Orders components of the topline index all receded versus the month prior.

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 fell in November 2024 to a reading of 51.5. Still, maintaining a reading above the expansionary threshold for a second consecutive month is notable as the Employment sub-index had posted sub-50 readings for much of the year until October – averaging 48.4 to that point. 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 taking heart in that assumption and look to be adding workers to meet that demand as a result.

Service providers' cost pressures were virtually flat according to the November 2024 ISM Services PMI Prices component reading of 58.2. This result follows a reading of 58.1 in October, remaining elevated and therefore still sounding a note of caution with respect to price pressures facing households. Wage pressures have not relented across services sectors despite consumer price inflation – and thus the necessity for cost-of-living increases waning – steadily weakening throughout 2024. Year-over-year wage increases are 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 (latest data available ahead of Friday's Employment Situation Report), while Professional & Business Services workers are riding an accelerating trend of wage growth which topped 5.0%

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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 the Federal Open Market Committee's December meeting. Debate regarding future rate cuts, however, has intensified alongside extrapolations of the incoming Trump Administration's tariffs rhetoric. The application of tariffs to consumer goods imports is being projected as a threat to inflation's downward trend and therefore the Fed's ability to pursue a neutral monetary policy environment. However, services consumption accounts for about 70% of total household spending and is far more rooted in spending on experiences and at local businesses that are not as heavily reliant upon imports. Thus even in an environment where interest rates and inflation trajectories stall, the ISM Services PMI could continue to outperform in 2025 as households avoid consumption where prices are rising fastest (i.e., goods) and instead double-down on services consumption to indulge their spending habits.

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