

ISM Services Rides Holiday Spending Trends to 54.1 Result in December 2024

- **The ISM Services PMI rose to 54.1 in December 2024**
- **Business Activity posted the strongest monthly gain, reaching 58.2 for December 2024**
- **Service industry hiring maintained a mildly expansionary stance with Employment posting a 51.4 result for December 2024**
- **Cost pressures jumped to their highest point since February 2024 at 64.4 for December 2024**

The ISM Services PMI finished 2024 on a solid note, rising to 54.1 in December after slipping modestly in the month prior. The holiday shopping season was healthy by all accounts, likely leading to the bounce in the PMI report's Business Activity index jumping to 58.2 as consumers spent on the supplemental experiences to gift shopping, such as dining out. Inventory Change rose to a near break-even level at 49.4 for December 2024, and Inventory Sentiment among service providers was also expansionary at 53.4, combining to suggest that retailers entered the final stretch of the holiday shopping season in a position of balance.

The ISM Services PMI diffusion index indicates the net percentage of service providers 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 report's Business Activity component index posted its strongest showing in three months with a reading of 58.2. This represents the third-highest Business Activity reading for 2024 (59.9 in September; 61.2 in May) and helped the topline ISM Services index post its first December month-over-month gain since 2020. Business Activity serves as the most direct indicator of current conditions within the report, as opposed to components such as forward-looking New Orders or the lagging, more reactive Employment category. With this perspective, the ISM Services' Business Activity result aligns with broader reports of a strong holiday shopping season to close out the year for consumer spending.

The ISM Services PMI's Employment component index fell slightly in December 2024 to a reading of 51.4 for the month. This is now the third consecutive month of results above the expansionary threshold for the Employment sub-index after having averaged 48.4 for the year through September. The U.S. labor market has regained a measure of sustainability, with the ratio of job openings to unemployed workers falling to parity from the early post-pandemic worker shortage of 1.9 job openings per unemployed worker. Although this relationship has largely resulted from falling job openings rather than any surge in hiring, the outcome should be the same with businesses' ability to source workers boosted entering the new year. The boost to business confidence post-election and Federal Reserve surveys showing business demand for loans is returning suggest that businesses will be looking to take on new opportunities in the near-term, and therefore hiring in

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

the U.S. economy should have support as well. Service providers should lead the way on this front after having faced the worst of the labor market's imbalances for the past several years.

Service providers' cost pressures jumped to their highest reading since February 2023, posting a result of 64.4 for December 2024. This bounce comes on the heels of relative stability for service providers' costs throughout 2024. The Prices component of the ISM Services PMI report had averaged 57.6 from February through November, with minimum and maximum values over that period of 53.4 and 59.4, respectively – i.e., very little volatility while maintaining expansionary conditions. While labor markets have softened in the U.S. economy, labor costs continue to outpace businesses' ability to raise prices as consumers become more discerning in their spending – not ceasing consumption, but rather seeking out greater value wherever possible. If wage gains follow suit in the months ahead alongside the labor market's newfound balance, the December 2024 jump in services providers' cost pressures should be fleeting.

The December 2024 ISM Services PMI report indicates stable expansionary conditions across services industries entering the new year. This solid footing across the largest industrial footprint for the U.S. economy supports PNC's expectations of two (2) 25 basis point rate cuts from the Fed in 2025. This path would move interest rate costs faced by businesses closer to neutral, but acknowledges the reality that the U.S. economy is still performing well and does not require an exceptional pace of policy easing in order to maintain that condition. Risks remain that inflation could be sustained above the Federal Reserve's target of a 2% average for some time given economic health and still-strong wage growth. So long as current conditions reports such as the ISM Services PMI continue to demonstrate modest expansion, the slower pace of Fed policy easing will prove to be justified given their continued fight to finally hit their target according to their inflation-fighting mandate.

PNC Economics

Kurt Rankin, PNC Senior Economist

economics@pnc.com

Visit pnc.com/economicreports for more information from PNC Economics.