

ISM Services Fell in Key Categories, Topline in Contraction at 49.4 for April 2024

- **The topline ISM Services PMI came in at 49.4 for April 2024, its first contractionary reading since December 2022**
- **The Business Activity component of the ISM Services PMI plunged to 50.9, lowest post-pandemic reading to date**
- **Employment across service industries posted a third consecutive contractionary result at 45.9 for April 2024**
- **Services industry price pressures top an index reading of 60, posting their highest post-pandemic reading yet**

The ISM Services PMI report fell to 49.4 in April 2024 in what looks to be a mix of cost pressure concerns and slowing demand. The Business Activity component index plummeted to 50.9 in April, down from 57.4 in March. This month's ISM Services PMI report aligns with the earlier-released Employment Situation report from the Bureau of Labor Statistics (BLS) in suggesting that the U.S. economy may finally be cooling in key sectors – a positive sign for inflation and for those hanging onto hope regarding looser Fed monetary policy this year.

The ISM Services index measures net activity among service industry businesses, with a reading of 50 implying an even split between those indicating expansionary and contractionary conditions. The April 2024 results show the services sector of the U.S. economy in outright contractionary territory for only the second month since the end of the pandemic (December 2022 (49.2)). Weaker conditions for April were apparent in the Business Activity component of the report, which is reflective of current conditions, as well as the Employment and New Orders results (45.9 & 52.2, respectively) which can be interpreted as reflective of planning for future expectations. Again comparing with the BLS' April 2024 Employment Situation report, Leisure & Hospitality hiring as well as Professional & Business Services job creation were both weaker for the month – with Professional & Business Services actually declining. Collectively, the data for April are pointing toward expectations of less frothy services activity in the months to come.

Service industry cost pressures ratcheted up to their strongest post-pandemic reading to date, posting a reading of 62.9 for April 2024. Labor costs have been a weight on service providers' bottom lines throughout the past three years as consumer demand has fueled the need to hire from a diminished pool of available workers. With indicators such as the ISM Services PMI's Business Activity component finally showing evidence of slowing demand, the services industry labor market could begin to rebalance itself heading into the second half of the year, relieving some wage pressures on service industry businesses.

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

Federal Reserve officials looking for hints that inflation's downward trajectory is not lost can take comfort in the April 2024 ISM Services PMI report. There are still cost pressures facing both service providers and manufacturers that will work their way through supply chains to the U.S. consumer over the coming months. But if April's services sector readings can take the leap from one month's worth of data to the start of a trend over the coming months, a more dovish story regarding inflation's potential in the second half of the year will become less difficult to sell.

PNC Economics

economics@pnc.com

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