

Service Sector Growth Still Positive But Slowing in December, With Big Drop in Employment

- The ISM's services index fell in December, but remained in expansion.
- Production was strong, but the employment component fell into contraction.
- Economic growth is slowing to a more sustainable pace entering 2024.

The Institute of Supply Management's Services PMI fell to 50.6% in December from 52.7% in November; a reading of above 50% indicates expansion in service industries. This is the lowest the index has been since May, but it has been in expansion for twelve straight months.

Of the four components used to calculate the overall index, three decreased over the month, but three also indicated expansion. There was an especially large drop in the employment component, to 43.3% from 50.7%, indicating a drop in employment over the month. The new orders component fell in December, but remained in expansion at 52.8%. There was a small decline in the supplier deliveries component; it was just below neutral at 49.5%. The business activity/production component rose to a solid 56.6% in December from 55.1% in November.

The other components, not used to calculate the overall index, were mixed. Inventories fell slightly over the month, with inventory sentiment elevated, indicating firms are worried about having too much stock on hand. Prices increased, but at a slower pace than in November. New export orders rose slowly over the month.

Nine industries reported expansion in December, with the strongest growth in agriculture; accommodation and food service; and health care. Nine industries reported contraction, with the biggest declines in real estate, weighed down by high interest rates; arts, entertainment and recreation; and wholesale trade. Respondent comments were generally positive.

The ISM services index is consistent with an economy that is gradually expanding. After strength through the first three quarters of 2023, growth is softening to a more sustainable pace entering 2024 as higher interest rates weigh on economic activity. The ISM's manufacturing index was below the expansion level in December at 47.4%, although it was up from November.

PNC Economics

economics@pnc.com

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