

ISM Services Rings in the New Year with a Leap Back into Expansionary Territory, 53.4 for January 2024

- **The topline ISM Services PMI came in at 53.4 for January 2024**
- **The Business Activity component of the ISM Services PMI was unchanged at 55.8 for January 2024**
- **Services industries' pricing trends bounced to 64.0 for January 2024, the highest reading in nearly a year**
- **Services industry hiring regained the expansionary threshold in January 2024 at 50.5 for the month**

The ISM Services PMI report strengthened its foothold on expansionary conditions with a reading of 53.4 for January 2024. This is up from revised result of 50.5 in December 2023 – which itself was the lowest topline reading for the index since December 2022 (49.0). Gains in New Orders, Production and Employment components of the ISM Services PMI report were all contributors to the strong topline result.

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. January 2024's monthly gain of 2.9 index points is the strongest since the opening month of 2023, and comes on the heels of a dip to near-breakeven conditions throughout the fourth quarter of last year. Consumer spending is still healthy across the U.S. economy, and continues to lean toward services and experiences, as opposed to purchases of goods. Demand looks to keep the ISM Services index's results firmly in expansionary territory through the first half of 2024.

The Business Activity component index of the ISM Services PMI report post a second consecutive reading of 55.8 for January 2024. With no respite in current demand conditions for service providers, it is not surprising to see the report's Employment component bounce back to 50.5, up from 43.8 to close out last year. Breaks in the trend of the ISM Services PMI Employment index, such as the sub-50 reading in December 2023, will remain outliers while consumer demand remains robust.

Service industries' collective price growth jumped sharply to open the new year, rising to 64.0 in January 2024 from 56.7 in the month prior. This is the highest reading for the Prices sub-index since February 2023 (65.1) and represents the first significant reacceleration of price pressures indicated by this report since overall inflation stabilized in the middle of last year. The greatest threat to the Fed's goal of re-establishing a 2% average pace of consumer price inflation is ongoing wage growth due to an exceptionally tight U.S. labor market. Given that services industries are still less prone to automation as a substitute for labor costs as compared to manufacturing and other heavy industry sectors, price increases resulting from service providers passing their own higher (labor) costs onto consumers will remain a risk to inflation's downward trend in the coming months.

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