

ISM Services Index Breaks into Contraction, Down to 49.9 in May 2025

- **The ISM Services PMI fell to 49.9 in May 2025, its first contractionary reading since June 2024**
- **New Orders collapsed in May 2025, falling to 46.4 – the component’s lowest reading since December 2022**
- **Current Business Activity fell to a breakeven level of 50.0 in May 2025**
- **Cost pressures for services providers skyrocketed to 68.7 for May 2025**

The ISM Services PMI fell to 49.9 in May 2025, reversing a tentative gain in April and falling into contractionary territory for the first time since June 2024 (49.6). New Orders and Backlog of Orders categories ran dry in the May report, each falling to multi-year lows and demonstrating forward-looking weakness in demand for service providers’ offerings. And while demand, according to these components of the ISM Services PMI report, looks to have taken its first significant turn downward since tariff-related chaos took hold of the U.S. economy, Prices faced by the U.S. economy’s service sector leapt to a 10-month high reading and forcing a conundrum upon businesses who now have a growing certainty of demand limitations to pair with uncertainty regarding the policy environment.

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 above 50 revealing net expansion across services sectors.

The ISM Services PMI report’s New Orders component index fell dramatically in May 2025 to 46.4. This is down from a reading of 52.3 in April and a recent peak in September 2024 (59.1). May’s New Orders result is the weakest for this forward-looking indicator of demand since December 2022, which itself was a one-off drop sandwiched between two relatively strong monthly showings as the U.S. economy worked through post-pandemic economic volatility. Excepting pandemic-induced economic disruptions, May’s New Orders result is the weakest since the throes of the Financial Crisis (May 2009, 45.9). The Backlog of Orders component of the May 2025 ISM Manufacturing PMI report also implied weakness for service industry businesses as it fell to 43.4 from April’s 48.0 – its lowest reading since August 2023.

And even if the May 2025 New Orders result is indicative of cautious planning rather than data-informed decision making regarding consumer expectations, a lack of New Orders suggests that supply issues are on the horizon for retailers, which is will likely put upward pressure on inflation.

Service providers' cost pressures accelerated in May 2025 to an index reading of 68.7. This result comes ahead of the full impact of tariffs after the heaviest tariff burdens were delayed for 90 days in early April. With wage growth above the pace of inflation in many cases and upward momentum in overall costs in the driver's seat, service providers are faced with a concerning baseline condition as they plan for the second half the year and beyond. Relying upon consumers to absorb higher costs would be a risky strategy given the ISM Services PMI report's signals that demand is already expected to wane in the months to come.

The May 2025 ISM Services PMI report offers plenty of concerning developments for the Federal Reserve's monetary policy considerations in the next few months. Should consumer spending follow the trend implied by this report, job creation would surely suffer a fallout as more than 65% of the U.S. economy is dependent upon workers bringing home a paycheck and *spending* that paycheck. Such a development would bring the Fed's problem of fighting renewed upward price pressures with restrictive (high) interest rates while needing to consider support for a hamstrung labor market through lower rates.

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