

ISM Services Rose to 53.5 in February 2025, Establishing New Year Momentum

- **The ISM Services PMI rose modestly to 53.5 in February 2025**
- **Business Activity was virtually unchanged at 54.4, versus 54.5 to open the new year**
- **Hiring among service providers accelerated in February 2025, rising to 53.9 – its strongest reading since March 2022**
- **Cost pressures for services providers remained elevated versus average readings through the second half of 2024**

The ISM Services PMI rose to 53.5 in February 2025, from 52.8 in the month prior. The only sub-index among the report's details to fall was Business Activity, and that was by a mere 0.1 index points. Strength in Employment and Backlog of Orders suggest that service providers are acting on healthy current demand and have sustainable growth ahead of them.

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 Business Activity component index declined marginally in February 2025, falling to 54.4 from 54.5 in the month prior. January's Business Activity sub-index saw a significant decline from numbers seen through the fourth quarter of last year, so a flat result for this month's report represents a measure of relief that a new downward trend is not taking hold. New Orders among service industry businesses rose in the February 2025 report, coming in at 52.2 versus 51.3 in January. The slight pickup here, again, offers hope that the weak January 2025 result was not the start of a broader trend.

The ISM Services PMI's Employment component index rose for a third consecutive month in February 2025, posting a reading of 53.9 for the month. This is the strongest Employment category reading for the ISM Services PMI since March 2022. Services industry hiring was held below the expansionary threshold of 50 for seven out of twelve months in 2024 before breaking above that market and establishing what is now an upward trend in October. The February 2025 Employment Situation Report will be released by the Bureau of Labor Statistics on Friday, March 7th. But results for that report's Service-Providing jobs growth have recently coincided with the ISM Services PMI's upward trend, with December 2024's monthly gain the representing the largest percentage increase since January 2023, and even the fallback in growth in January 2025 representing a trend of "higher lows" that has been in place since mid-2024.

Service providers' cost pressures look to have taken hold again for service providers. The Prices category of the ISM Services PMI for February 2025 rose to 62.6, up from 60.4 in January 2025. This sub-category has been sustained above the 50.0 threshold throughout the post-pandemic era, but only broke back above 60.0 in December 2024. Highlighted comments from survey respondents in the February report were concentrated around the impact of tariffs that have been at the fore of the Trump Administration's agenda, including concerns regarding "[t]he majority of capital equipment we purchase is not manufactured in the U.S." Coupled with the prospect of interest rates remaining higher than had been hoped throughout the remainder of 2025, service industry businesses that are faced with the need for investment in equipment look likely to face a hit to their bottom lines in the year ahead.

The February 2025 ISM Services PMI report revealed relative strength across all its components, but highlighted concern from survey respondents that government policy uncertainty threatens to undermine any existing trends through those respondents' accompanying commentary. Both service providers and manufacturers are now reporting higher costs in running their businesses, which projects to sustained above-target consumer price inflation in 2025. If consumers begin to react to higher costs not just by seeking better value options, but by pulling back on spending entirely, the downside risks to U.S. economic growth have the potential to compound upon one another quickly.

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