

ISM Services Index Posted a Modest Gain to 51.6 in April 2025

- **The ISM Services PMI increased to 51.6 in April 2025**
- **Business Activity weakened slightly to a reading of 53.7 for April 2025**
- **New Orders and Inventory Change sub-indices fared well in April 2025 among service industry businesses**
- **Cost pressures for services providers with Prices reaching a more than two-year high at 65.1 in April 2025**

The ISM Services PMI rose to 51.6 in April 2025, up from 50.8 in the month prior and avoiding sliding fully into contractionary territory. New Orders and Inventory Change carried water for the sector's April 2025 gains in the face of looming tariff impacts on consumer demand and business investment. Employment edged up on the month, but remained below the solid job growth indications given by the ISM Services PMI's Employment category through the final months of 2024 and entering this year. Just hanging on to growth at present, service providers will be faced with much more difficult waters to navigate as the reality of new tariff policy begin hitting the U.S. economy in the months to come.

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 fell to 53.7 in April 2025, down from 55.9 in February and a recent peak in September 2024 (58.6). Current conditions, as represented by Business Activity, remained modestly expansionary according to the ISM Services PMI's metrics, and reflects ongoing consumer demand despite consumer confidence indicators that have suggested that much weaker spending growth should have taken hold in March and April. As long as consumers continue to spend, businesses will work to meet that demand. But PNC's forecast of undermined spending potential due to the higher costs that will result from near-universal tariffs means that service providers' Production requirements should begin falling off entering the second half of the year.

The ISM Services PMI's Employment component posted a modest bounceback in April 2025, climbing to 49.0 for the month. This result comes on the heels of the Employment sub-index falling into contractionary territory in March (46.2) – which was the first time it had done so since September 2024 (48.2). Service-oriented businesses' wage growth trends have developed a split between blue-collar and white-collar positions. Average Hourly Earnings growth in Professional & Business Services employment, according to the Bureau of Labor Statistics, has continued to outpace economy-wide average wage growth through the early months of 2025 while Leisure & Hospitality Employment earnings growth has established a growth trend firmly below that overall average. As other costs begin to rise for service businesses in response to the application of

tariffs, these industries seeing the strongest sustained wage growth may well be the first to temper hiring as they attempt to balance their rising costs with meeting consumer demand.

Service providers' cost pressures hit a 27-month high in April 2025, with the ISM Services PMI's Prices component rising to 65.1 for the month. 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 now new momentum in overall costs, service providers are faced with a concerning baseline condition as they plan for the second half of the year and beyond that thus far promises to see even further price pressures. Relying upon consumers to absorb higher costs will be a risky strategy as even before tariff talk took center stage there was evidence of price tag fatigue across the U.S. consumer base after several years of accumulated consumer price inflation. The durability of the ISM Services PMI's mild expansionary conditions, and thus the sector's overall growth prospects, is most threatened by services businesses' Prices component now trending upward with no relief in sight.

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