ISM Services Index Fell in October, But Remained in Expansion

Headlines

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- **The ISM Services Index fell slightly in October but remained comfortably in expansion.**
- **All four of the subindices used to compute the overall index were above 50 in October; two rose over the month and two fell.**
- **The employment index has been stronger in 2026.**
- **The prices index fell slightly but remained elevated, indicating continued high inflationary pressures.**
- **Together, ISM manufacturing and services indices point to continued solid economic growth into 2027.**
- **The market reaction to Democratic gains in Congress was positive.**

Details

The ISM Services Index fell slightly in October but remained comfortably in expansion. The index fell to 54.5 from 54.9 in September; a reading above 50 indicates expansion in services industries. After falling to around 50 in mid-2025 with much higher tariffs, the index moved higher in late 2025 and has been in the mid-50s since then, even with the conflict with Iran.

All four of the subindices used to compute the overall index were above 50 in October. The business activity and new orders subcomponents fell over the month, while the employment and supplier deliveries subcomponents rose. The employment subindex rose to its highest level since February but was still only modestly expansionary at 51.4.

Of the six subindices not used in computing the overall measure, four rose in October while two declined. All of them were comfortably indicating expansion. The prices subindex, which measures the prices businesses pay for inputs, remained extremely elevated at 73.0 in October, although this was down somewhat from 74.0 in September. The October prices reading was the second highest since June 2022, after September. The elevated prices index indicates inflationary pressures remain intense.

Fifteen of the eighteen industries included in the services index reported expansion, with the strongest growth in transportation and warehousing, wholesale trade, information, and retail trade. This pattern is consistent with recent growth in the U.S. economy, which has come from steady gains in consumer spending and strong growth in tech investment related to AI. There were

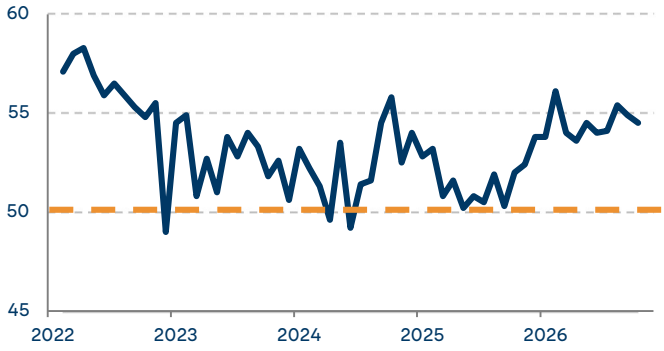
contractions in construction and health care. This is somewhat surprising given that data center construction has been a key driver of growth in recent quarters, and that health care has accounted for more than half of private sector job growth over the past year. It could be that very weak homebuilding is weighing on construction, and that federal government spending cuts are dragging on health care.

The comments from survey respondents were generally negative even as the economy remains solid, with annualized real GDP growth of 3.4% in the third quarter. Respondents cited high energy prices and tariffs as drags, while some respondents noted strong demand.

The ISM services index remained strong in October, even as it fell slightly from September, with good details. The ISM manufacturing index rose one point in October to 55.5 and is also in expansion. Together, the two indices point to solid growth at the end of 2026, although high energy costs and tariffs remain drags. The U.S. economy should continue to expand into 2027, although reduced optimism about tech remains a major downside risk.

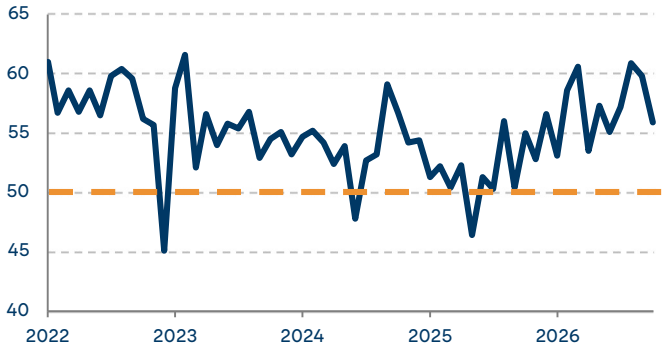
The S&P 500 is up almost 2% at midday after Democrats scored a resounding victory in congressional elections, gaining majorities in both the House of Representatives and the Senate. Markets were already pricing in gains for the Democrats ahead of the election, but the scale of Democratic wins was larger than expected. Given the likelihood of gridlock over the next two years, markets are pricing in continued growth and perhaps reduced uncertainty. The yield on the 10-year Treasury note is down by 7 basis points to 4.91%. The price of a barrel of West Texas Intermediate crude is down by more than 8%, to around $88, presumably on expectations for a quick end to the U.S. conflict with Iran now that Democrats control Congress. The dollar is slightly weaker against a basket of currencies today.

Figure 1: ISM services – composite (SA)



Sources: ISM, PNC

Figure 2: ISM services – new orders (SA)



Sources: ISM, PNC

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