Minor Retreat Leaves ISM Services in Expansion with More Sustainable Strengths

Headlines

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- The Institute for Supply Management (ISM) Services Purchasing Managers Index (PMI) fell in September 2026 to 54.9.
- Business Activity and New Orders both moderated in September, backing down from August's three-year highs.
- The ISM Services Employment Index crossed back into expansionary territory in September 2026 at 50.1.
- The ISM Services Prices index moved higher again, posting a result of 74.0 for September 2026.

Details

The ISM Services PMI came in slightly below expectations at 54.9 for September 2026 (see Figure 1). This result, however, can hardly be considered a disappointment as the topline index remains solidly in expansionary territory and is built on strong current Business Activity, New Orders, and a newly expansionary Employment sub-index result. Only the New Export Orders component of the ISM Services report indicated contraction in September. But internally driven weakness for the Euro is more likely to be dampening U.S. services exports recently as opposed to the past two years' adversarial trade environment's impacts and forward-looking expectations.

The ISM Services PMI is a diffusion index that measures the net share of service-sector businesses reporting expanding versus contracting activity across a range of categories. A reading above 50 indicates expansion in the services sector. September's reading of 54.9 marked the 27th consecutive month of expansion. According to ISM, readings above 48.1 generally indicate growth in the overall U.S. economy.

Consumer spending remains a key source of support for economic activity, accelerating in the second quarter of 2026 and receiving a further upward revision in the Bureau of Economic Analysis' most recent report on economic activity. Personal consumption expenditures on the services front shared in that outcome. Despite a decline for the month to a reading of 56.5, the Business Activity component of the ISM Services report aligns with other healthy consumer spending signals. Business Activity in September still allowed the index to post its highest six-month average (April through September) since February 2023.

Service providers are operating in an increasingly competitive environment as households contend with the ongoing effects of inflation on purchasing

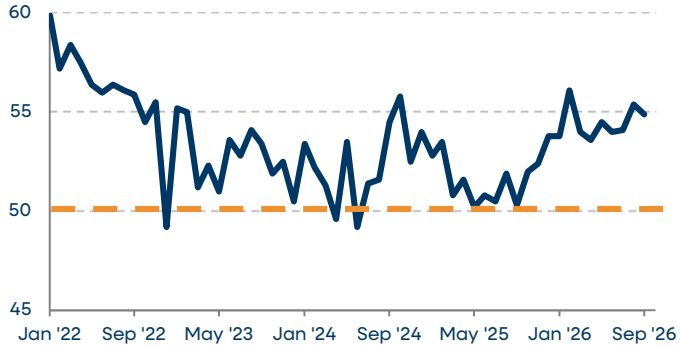
power but continue to navigate these circumstances well. Credit card debt growth, although high in dollar terms, remains within a sustainable range compared to historical observation, and credit card delinquency rates continue to fall. These factors suggest that the still-strong New Orders component of the ISM Services index, at 59.8 in September 2026, is not overextended and that demand can remain strong through the final months of the year.

Hiring activity across the services sector breached the expansionary threshold of 50 in September 2026. The Employment sub-index came in at 50.1 for the month, which represents its first expansionary reading since June. The ISM Services Employment Index has averaged 48.2 since March. The U.S. economy's "No Hire, No Fire" labor market conditions were reiterated with the Bureau of Labor Statistics' Employment Situation report for September 2026 with a gain of only 29,000 jobs for the month. But the unemployment rate remains at 4.2% overall, which remains aligned with the full employment side of the Federal Reserve's dual mandate.

Cost pressures for U.S. service providers are showing no signs of retreat in the ISM Services report. The Prices index rose to a 51-month high of 74.0 in September 2026. High energy prices, persistent cost pressures on upstream manufacturers, and unyielding U.S. consumer demand all factor into the prices services businesses face. Select survey responses quoted in the ISM report point to a waning ability or willingness among services businesses to absorb higher costs without passthrough to consumers.

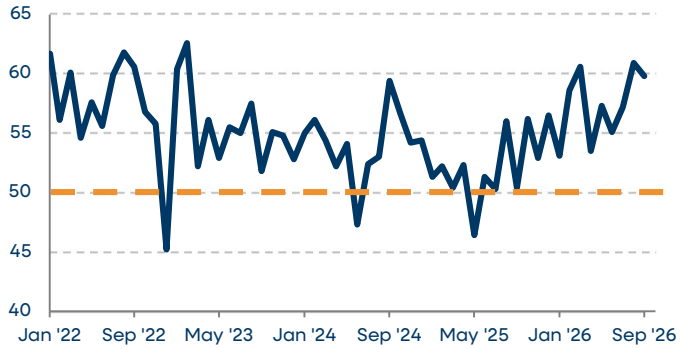
The ISM Services PMI and ISM Manufacturing PMI reports for September 2026 both showed accelerating cost pressures for those sectors, and oil prices are again near $90 per barrel (West Texas Intermediate). The Fed has moved on from patient observation of price shocks to raising interest rates through monetary policy out of the September 2026 Federal Open Market Committee meeting. PNC expects two further 25 basis point rate hikes from the Fed through early 2027, which appears justified by acceleration in the ISM survey components related to prices across the U.S. economy.

Figure 1: ISM services – composite (SA)



Sources: ISM, PNC

Figure 2: ISM services – new orders (SA)



Sources: ISM, PNC

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