

ISM Services Index Heating Up, Topline Rises to 54.5 for August 2023

- **The ISM Services PMI report rose in August 2023, 54.5 for the month**
- **Services industry Business Activity remained elevated at 57.3 in August 2023**
- **The ISM Services Employment sub-index bounced to 54.7 for August 2023**
- **Price pressures in the August 2023 ISM Services report look to be reaccelerating, up to 58.9 for August 2023**

The ISM Services PMI report rose to 54.5 for the topline index in August 2023. This is up from 52.7 in July, and from a 2023 trough of 50.3 in May. The ISM Services index measures net activity among service industry businesses, with a reading of 50 implying an even split between those indicating expansionary and contractionary conditions. There has not been a sub-50, contractionary reading for the ISM Services index this year.

The New Orders component of the ISM Services PMI came in at 57.5 in August 2023, up from 55.0 in July. This is the strongest reading for New Orders since February (62.6) and represents an acceleration in this component index's expansionary trend from a low of 52.2 hit in March. Strong New Orders activity is an indication that consumer and business activity in the U.S. economy continue to defy gravity – higher interest rates, accumulating debt, and depleted savings have all failed to squash services spending thus far and the ISM Services PMI reveals that the trend is tilting higher once again.

The Employment component of the ISM Services PMI report was another solid contributor to the August 2023 report's expansionary leanings. At 54.7, this month's Employment index posted its strongest result since December 2021. Although hiring across services industries in the U.S. has slowed since mid-2022, the ISM Services report's strength in this category suggests that this trend remains a reflection of lack of labor supply rather than diminished demand for workers. The renewed expansionary pace of the Employment component of the ISM Services report implies continued upward pressure on wages as service industry businesses compete for limited labor resources.

The Backlog of Orders and Inventory Sentiment components of the ISM Services PMI report for August 2023 combine to tell a story of businesses rising to meet strong demand despite a challenging environment. Backlog of Orders fell to its lowest reading in four months, down to 41.8 for the month versus 52.1 in July. Though contractionary in isolation, the resolution of backlogged orders reflects businesses' ability to catch up with demand that had outpaced productive capacity for much of the past two years. However, Inventory Sentiment according to the ISM Services report stood at 61.5 in August 2023 – the strongest result on this front since the pandemic first tightened its grip on the U.S. economy (62.6; April 2020). Service industry businesses viewing their current-conditions capacity this favorably, despite much higher interest rates and still-rising wage pressures, bodes well for the sector's ability to meet demand in the near-term. And with this confidence in place despite current challenges, the prospect of adjusting to weakening demand seems less threatening to the services sector's stability entering 2024, at which point PNC continues to see a mild recession in the U.S. economy as the most likely scenario to play out.

Please reach out with any questions.

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