

- **The topline ISM Services PMI was 51.8 in October 2023. The Business Activity component of the ISM Services PMI report receded to 54.1 for October 2023**
- **Hiring momentum in services industries slowed according to the October 2023 ISM Services PMI Employment component (50.2)**
- **Services industries' pricing trends remained steady, with the Prices component of the ISM Services PMI at 58.6**

The ISM Services PMI report came in at 51.8 in October 2023. This is down from 53.6 in September and represents a second consecutive monthly retreat in the topline index. 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. The ISM Services has not dipped below the breakeven threshold of 50 since December of 2022 (49.2), but the October 2023 result is built upon details that appear to be trending away from expansionary conditions.

The Business Activity component index gave back 2023's summer months expansion, falling to 54.1 for October 2023. The Business Activity component had climbed from 51.5 in May 2023 to post four months of 57+ results. Service providers faced with slowing current business activity and still-strong wage growth will be faced with difficult decisions entering the holiday shopping and recreation season. Efforts to hire workers will put a strain on profits as labor costs rise, and the prospect of weaker spending in the coming months may force a reevaluation of the very need for those workers. Indeed, the Bureau of Labor Statistics' Employment Situation report – also released on Friday morning (11/2/23) – showed that Leisure & Hospitality hiring in October 2023 was less than one-third of the pace seen in October 2022.

The ISM Service PMI's own Employment component index saw a stark decline in October 2023 to 50.2 – barely above the breakeven threshold of 50 that indicates ongoing expansion across service industries. This result is down from 54.7 and 53.4 in August and September. As the sharp drop in the current Business Activity component for October implies that demand for labor in the U.S. economy's services sector may well be easing after the constant struggle to find workers dominated headlines since the end of the pandemic.

The New Orders component of the ISM Services PMI bounced to 55.5 for October 2023. This forward-looking component of the over ISM Services PMI does offer a salve against the less-rosy current conditions elements of the report for the month. With holiday spending potential ramping up in the coming months, a New Orders rebound could imply a turnaround in the Employment and Business Activity sub-indices that have begun to stumble over the past two months.

The October 2023 ISM Services PMI offers further evidence that the 12 to 18 month lag of monetary policy effects are running their course and slowing the U.S. economy on cue. Recall that the four consecutive 75 basis point hikes from the Fed occurred from June through November 2022, setting up their impact to reach a crescendo in these final months of 2023 and entering next year. PNC does not expect any further interest rate hikes from the Fed during this tightening cycle and continues to see a mild recession beginning in spring-2024 as the most likely scenario as restrictive financial conditions and stretched household balance sheets join forces to undercut consumer spending potential. A slowdown in service spending – as the largest share of personal consumption expenditures (67% of total in 2023Q3) – is necessary for that scenario to play out, and the October 2023 ISM Services PMI offers evidence that such trends are manifesting.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 12/13/23)	5.38-5.38%	5.38%	5.38%	FOMC on hold the funds rate steady at their December 13 meeting and all during the first half of 2024, before rate cuts begin next summer.
Oct CPI (11/14, Tuesday)	0.0 – 0.2%	0.1%	0.4% (Sept)	Up 0.1%. Gasoline prices fell by close to 4.5%. The Y/Y rise slows to 3.4% from 3.7% in September.
Oct CPI (ex-food & energy) (11/14, Tuesday)	0.3 – 0.4%	0.3%	0.3% (Sept)	Up 0.3%. The Y/Y rise slows to 4.0% from 4.1% in September.
Oct Retail Sales (11/15, Wednesday)	-0.6 to 0.3%	-0.2%	0.7% (Sept)	Up 0.2%. Both vehicle and gasoline sales fell.
Oct Retail Sales (ex-auto) (11/15, Wednesday)	-0.3 to 0.3%	0.0%	0.6% (Sept)	Up 0.3%. Control sales (excluding vehicle, building materials, gasoline station and restaurant sales) rose 0.4% on strength in online sales.
Oct PPI (11/15, Wednesday)	-0.1 to 0.3%	0.1%	0.5% (Sept)	Up 0.1%
Oct PPI (ex-food & energy) (11/15, Wednesday)	0.1-0.3%	0.2%	0.3% (Sept)	Up 0.2%.
Sept Business Inventories (11/15, Wednesday)	0.2-0.5%	0.4%	0.4% (Aug)	Up 0.4%.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Oct Export Price Index (11/16, Thursday)	-1.0 to 0.1%	-0.5%	0.7% (Sept)	Down 0.4%.
Oct Import Price Index (11/16, Thursday)	-0.5 to 0.1%	-0.3%	0.1% (Sept)	Down 0.5%.
Initial Claims, Wk of 11/11/23 (11/16, Thursday)	205K – 225K	220K	217K (11/4/23)	Up to 220K.
Oct Industrial Production (11/16, Thursday)	-0.9 to -0.1%	-0.4%	0.3% (Sept)	Down 0.2%. Manufacturing production fell by 0.3% reflecting the impact of the UAW strike (settled at the end of last month).
Oct Capacity Utilization (11/16, Thursday)	79.0 – 79.8%	79.4%	79.7% (Sept)	Down to 79.4%.
Oct Housing Starts (11/17, Friday)	1.250 – 1.425M	1.347M	1.358M (Sept)	Up to 1.40 million. Building permits up to 1.50 million.
Oct Leading Indicators (11/20, Monday)	-0.8 to 0.3%	-0.5%	-0.7% (Sept)	Down 0.5%.
Oct Existing Home Sales (11/21, Tuesday)	3.780 – 4.000M	3.910M	3.960M (Sept)	Down to 3.90 million.
Oct Durable Goods Orders (11/22, Wednesday)	-3.7 to 3.4%	-3.3%	4.7% (Sept)	Down 3.2% as very volatile civilian aircraft orders fell after big jumps in the past two months.
Nov U. Mich. Consumer Sentiment (final) (11/22, Wednesday)	60.4 – 63.0	60.4	60.4 (Nov prelim)	Up to 61.

Monthly Calendar of Economic Data: November 2023

Nov 14

Consumer Price Index		
	Total	Core
Aug	0.6	0.3
Sept	0.4	0.3
Oct		

Nov 15

Retail Sales		
	Total	Ex-Autos
Aug	0.8	0.9
Sept	0.7	0.6
Oct		

Producer Price Index		
	Total	Core
Aug	0.7	0.2
Sept	0.5	0.3
Oct		

Mfg and Trade		
	Inv	Sales
July	0.1	0.8
Aug	0.4	1.3
Sept		

Nov 16

Unemployment Claims (000)				
July	Aug	Sept	Oct	Nov
249	250	217	211	217
237	240	221	200	
228	232	202	212	
221	229	205	220	
227		209		

	Industrial Prod	Cap Util
Aug	0.0	79.5
Sept	0.3	79.7
Oct		

October Import Prices

Nov 17

Housing (000)		
	Starts	Permits
Aug	1.269	1.541
Sept	1.358	1.473
Oct		

Nov 20

Leading Indicators	
Aug	-0.5
Sept	-0.7
Oct	

Nov 21

Existing Home Sales (000)	
Aug	4.040
Sept	3.960
Oct	

Nov 22

Durable Goods		
	Total	Ex-Transp.
Aug	-0.1	0.5
Sept	4.7	0.5
Oct		

Nov U. Mich. Consumer Sentiment (final)

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