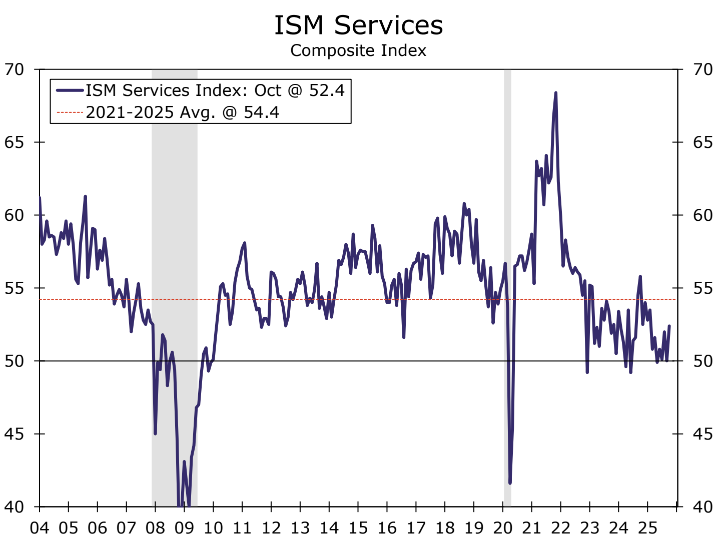
Economic Indicator — November 5, 2025

Service-Sector Activity Continues to Expand

Summary

The ISM services index rebounded to 52.4 in October amid an expansion in current activity and coming demand conditions. Service-providers reported paying higher prices as concerns around tariff-induced cost pressure continues.



Source: Institute for Supply Management and Wells Fargo Economics

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"The overall economy continues to provide mixed signals"

In a time of limited economic data, the ISMs take on greater importance. Earlier this week we learned that the manufacturing sector remained under pressure, while the latest ISM services index tells us activity expanded in October. This broadly corroborates the limited alternative data sources we've relied on with the historically long U.S. federal government shutdown limiting traditional data flow.

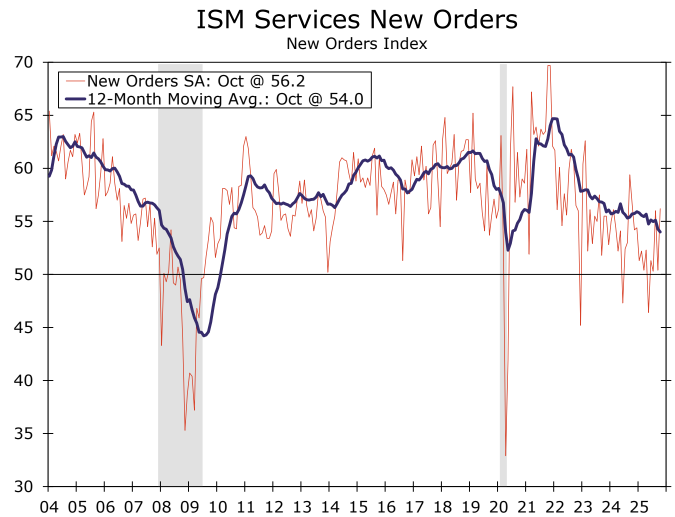
The overall ISM rose to 52.4 in October amid a general firming in conditions last month (chart). Select industry comments were fairly mixed with some commenting on strong or steady business conditions, while others continued to emphasize uncertainty around tariffs and the government shutdown impacting activity.

The main activity measures bounced back last month, which is encouraging and suggests September's weakness may overstate the current extent of slowdown in the sector. Business activity rose 4.4 points to 54.3 after slipping temporarily below the 50-line designating expansion from contraction in September, while new orders leaped 5.8 points to 56.2 (chart). These components have been volatile this year, but suggest current production held up and demand firmed somewhat last month. Order backlogs have come down somewhat as well, perhaps a result of steadier current conditions, though inventories are reported as too high relative to demand.

Firmer activity looks to have come with more price pressure. The prices paid metric rose to a near-three-year high of 70.0 in October with 16 of the 18 services industries included reporting paying higher prices during the month and just the mining industry reporting declines (chart). This comes despite realized services-consumer disinflation offsetting tariff-induced price pressure on core goods so far this year. While that suggests we may see more pass through to consumer services prices ahead, this survey includes goods-related industries like retail, construction and agriculture.

Service-sector hiring improved somewhat with the employment component rising last month, but at 48.2 it remains consistent with sector-level layoffs. Just four industries reported an increase in employment, including retail trade, which likely included seasonal-workers ahead of the all-important holiday-shopping season. Ten of the 18 included industries reported a decline in employment, though an included comment gets at the no-hire, no-fire labor market: "We have not replaced employees who have left through attrition."

Separately released data this morning on private hiring from ADP showed a rebound in October hiring after a contraction in September. Even so, the trend in hiring remains weak with this measure slipping to just 3,000 workers hired on average over the past three months with most of the hiring being done at large firms. State-level jobless claims data suggest there's still a lid on outright firings despite some large companies making announcements in recent weeks. Chair Powell responded to a question about this in last week's post-meeting press conference saying they're watching it "very, very, very carefully."



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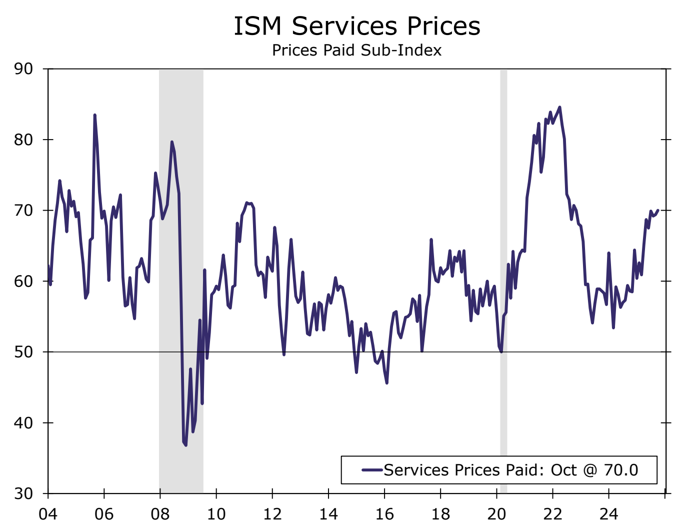

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