Macro Soup

📚 What the ISM services PMI actually measures, and why 55.4 hides a stagflation-lite signal

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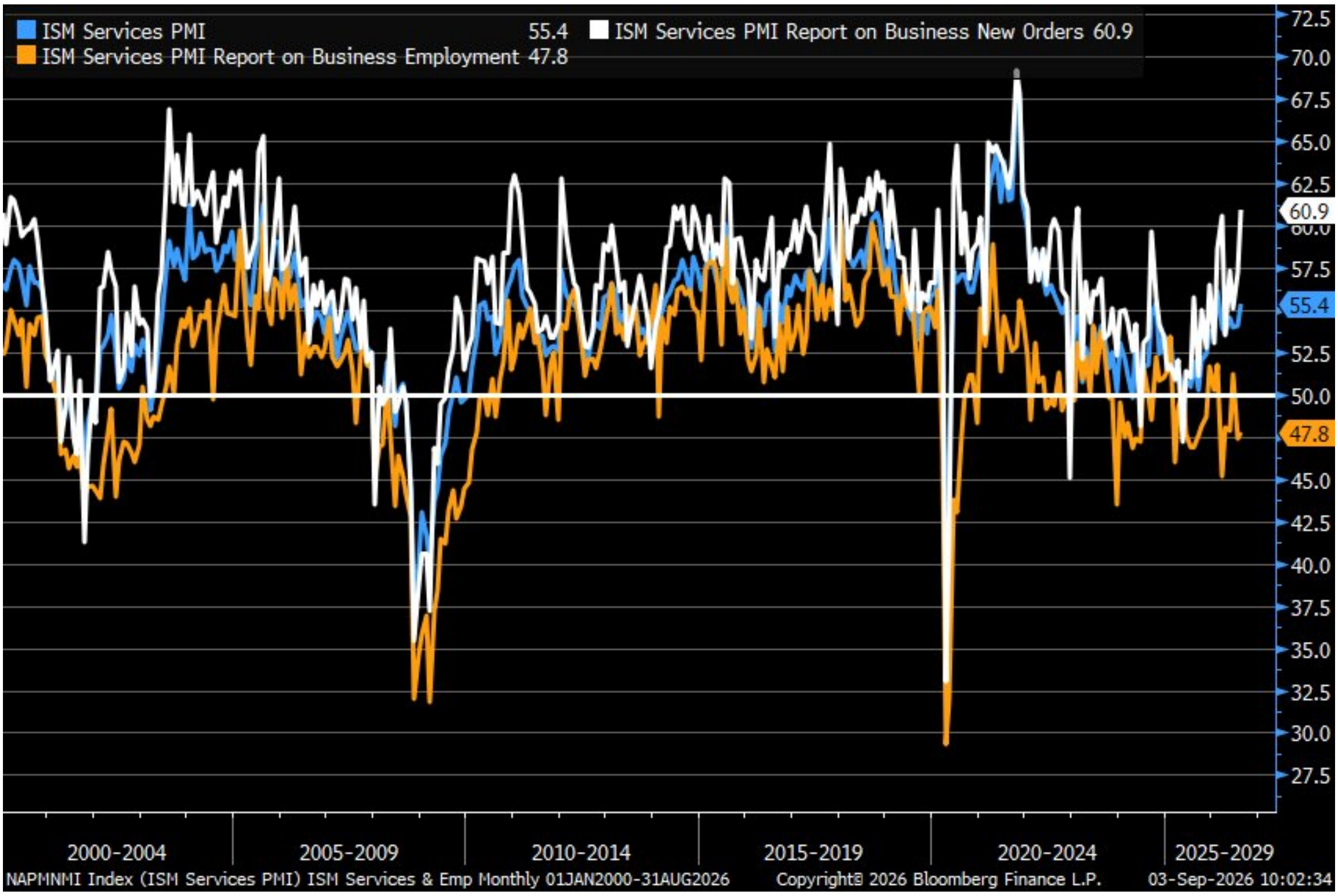
> *America's headline services-activity survey rose to 55.4 in August, but the gauge's own components show hiring contracted for a second month while input prices hit their highest level since 2022, even as new orders accelerated.*



Schwab's Liz Ann Sonders flags August ISM services new orders at 60.9 even as employment stayed below 50 and prices paid climbed to 72.6. Source

📚 What the ISM services PMI actually measures, and why 55.4 hides a stagflation-lite signal

The Institute for Supply Management (ISM) Services Purchasing Managers' Index (PMI) rose to **55.4** in August, up from **54.1** in July, the 26th straight month above the 50 expansion line. Read only as a headline, that number says the US services economy is growing, comfortably. Read one layer down, it says something messier: activity is accelerating, hiring is contracting, and input prices just hit a four-year high.

What is the ISM services PMI

Built monthly from a survey of purchasing and supply executives across private services, construction, mining, and public administration, and weighted by each industry's contribution to GDP, the ISM services PMI is a diffusion index. It does not measure output level or growth rate. It measures breadth: what share of surveyed firms reported conditions better, the same, or worse than the prior month.

For each component, the math is mechanical: percentage reporting improvement, plus half the percentage reporting no change. A reading of 50 means as many firms saw deterioration as improvement. The headline composite averages four subindexes at 25% each: Business Activity, New Orders, Employment, and Supplier Deliveries (the last inverted, since slower deliveries signal tight supply, not weak demand). A Prices index is tracked but excluded from the headline math entirely.

Originally launched in 1997 as the Non-Manufacturing Index and renamed in 2020, the series is released at 10:00 a.m. ET on the third business day of each month for the prior month, via the ISM services PMI report.

Why it matters

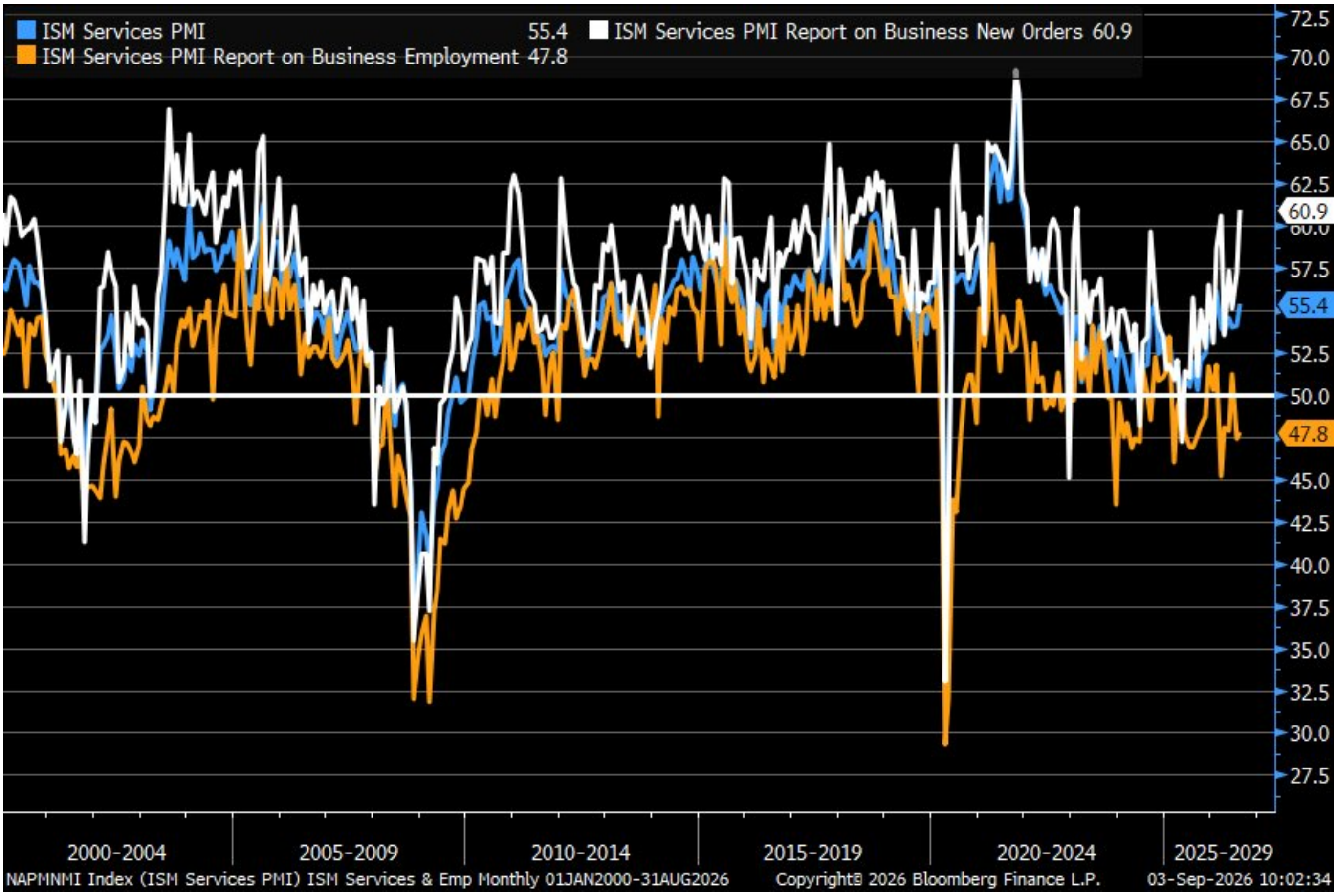
Private services accounted for **73.1%** of US GDP in Q1 2026, according to Bureau of Economic Analysis (BEA) data, dwarfing the slice covered by the manufacturing PMI. That makes the services print the earliest broad qualitative map of the economy, arriving weeks ahead of official GDP.

How to interpret it

Think of the headline as a weather map showing how many cities warmed, not by how many degrees. The useful information sits in the subindexes, not the average that washes them together.

In August: Business Activity jumped to 61.7 and New Orders to 60.9, both strong. Employment held at **47.8**, contraction for a second straight month. Prices, excluded from the composite, surged to **72.6**, the highest since 2022. That combination, expanding demand, shrinking headcount, accelerating input costs, is not a contradiction the headline resolves. It is the same tension the ADP National Employment Report, a private-sector payrolls survey, flagged on September 2, when private payrolls added just 38,000 jobs, the slowest pace since January.

This is the dataset the Federal Reserve is arguing over this month: a labor market showing real cracks against services-sector cost pressure that has not gone away. Anyone trading the headline number alone is trading half the report.



Employment has lingered below 50 even as the composite has stayed in expansion and prices paid have climbed toward four-year highs, the split that makes a 55.4 headline look more stagflation-lite than boom. Source

Main sources

- ISM Services PMI, August 2026 report
- ISM Services PMI reports hub
- ISM index computation and seasonal adjustment methodology
- BEA GDP by industry
- FRED: private services-producing industries as % of GDP (VAPGDPSPI)
- BLS Employment Situation