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## US Services Sector Slows Amid July Tariff Strain

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The U.S. services sector expanded at a slower pace in July, according to data released Tuesday by the Institute for Supply Management (ISM), as businesses continue to feel the pressure from ongoing global trade tensions and rising input costs tied to tariffs.

The ISM's non-manufacturing index dropped to 50.1% in July, down from 50.8% in June. Though the number still reflects modest growth, any reading above 50% indicates expansion. It fell short of market expectations of 51.5%, signaling that momentum in the services industry is cooling.

“The Employment Index’s continued contraction and the accelerated rise in the Prices Index are concerning developments,” said Steve Miller, chair of the ISM Services Business Survey Committee.

Miller also noted that both import and export components shifted from expansion to contraction territory in July. “The most common topic among survey panelists remained tariff-related impacts,” he added, highlighting a growing list of commodities with rising prices.

While the Business Activity Index remained in positive territory, it eased from June’s figures. The New Orders Index followed a similar trajectory, showing weaker growth. Meanwhile, the Employment Index contracted for a second consecutive month, suggesting firms are holding back on hiring in the face of economic uncertainty.

According to a respondent from the accommodation and food services sector, “Anticipation of the final tariff impacts is resulting in delayed planning for next fiscal year purchases.” Another respondent from the agriculture industry reported that “higher tariffs are increasing the cost of imported feed ingredients and trace minerals for livestock and poultry feeds.”

Carl Weinberg, chief economist at High Frequency Economics, said the report reflects a “slowing trend in service sector output,” which he considers a potential warning sign for the broader economy. Still, he emphasized that current data does not yet support a shift toward monetary policy easing.

The report adds to concerns about the resilience of the U.S. economy in the face of persistent global trade disputes. While the services sector, which includes industries such as healthcare, hospitality, retail, and transportation, continues to grow, the pace is slowing in the second half of the year.

As the market awaits further developments on tariff negotiations and their broader impact, businesses appear to be taking a more cautious approach to spending, hiring, and investment planning.