

Economic Indicator — March 4, 2026

ISM Services Signals Broad Improvement in Demand Conditions

The February ISM Services Index leaped to its highest level in three and a half years amid improving demand and steady conditions. A build back in inventories and move higher in order backlogs across the sector are additional signs that demand continues to ramp back up after an uncertainty-induced softening in the middle of last year. Some service-sector firms are also adding headcount as a result of an anticipated pickup in activity, and while higher prices remain a burden for most businesses, the ISM suggests cost pressure isn't getting materially worse. The bottom line: service sector conditions are improving as businesses see their way through steep levels of uncertainty.

Economist(s)

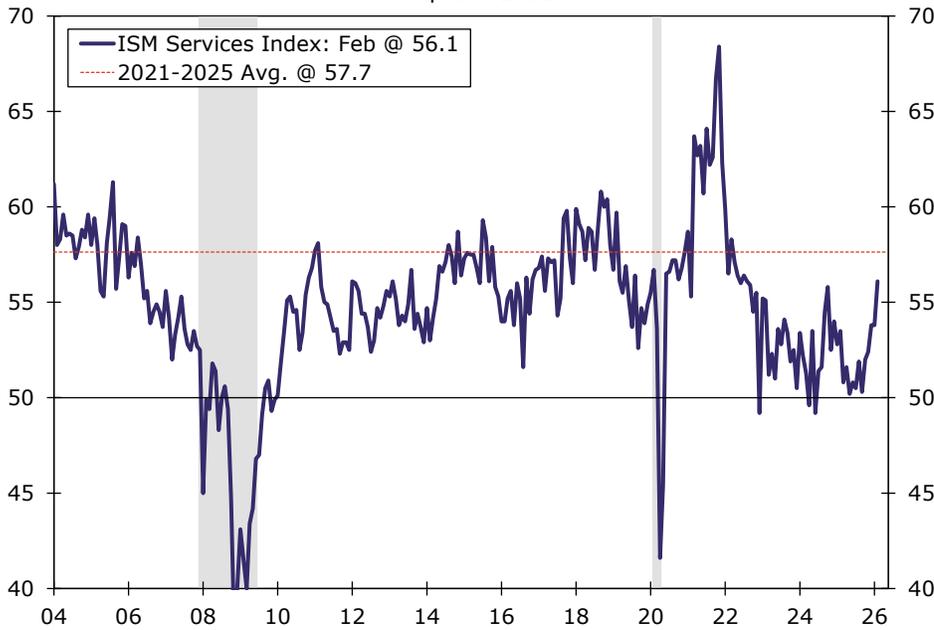
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ISM Services
 Composite Index



Source: Institute for Supply Management and Wells Fargo Economics

Services Sector Improvement

The ISM Services Index rose to 56.1, or the highest index reading in three and a half years in February ([chart](#)). The report was good all around—activity broadened across most industries with demand conditions improving ([chart](#)); price pressure is still high but not worsening, and some comments referred to increasing employment.

Nearly all industries reported an improvement in current conditions, with the business activity index rising to 59.9. The retail industry was the only industry that reported a drop in current activity. It also reported a decline in new orders and employment in February, signaling a cooling in retail spending after a sturdy holiday season followed by a strong January. This is consistent with what we're seeing in high-frequency weekly retail credit card data from Bloomberg as well. We're not overly concerned about the softness as it may reflect poor weather conditions, and [incoming tax refunds](#) should boost consumer spending in the next couple of months.

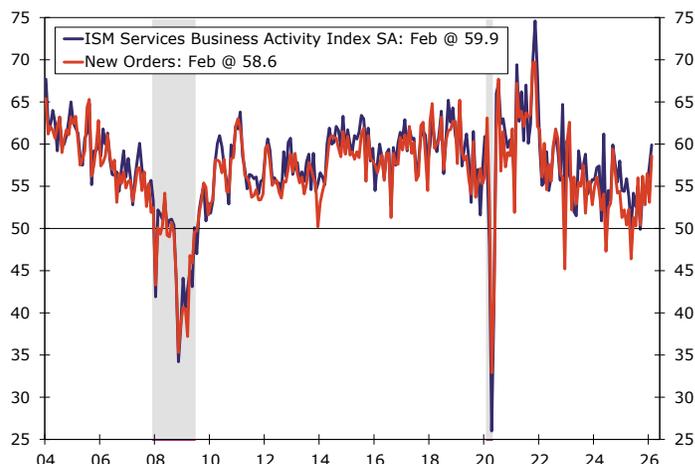
The new orders index rose further into expansion territory with 15 industries reporting increased demand last month. One respondent comment included in the note was fairly optimistic citing "stronger consumer demands, interest-rate stabilization, improved supply chain and stronger services activity." Other comments included continued references to tariff uncertainty, cost pressure and capacity constraints while also acknowledging solid business climate and performance. Service-sector activity continues through large levels of uncertainty.

We even take the jump in the measure of inventories (+11.3) and order backlog (+11.9) as a signal of improving demand conditions after a year where most businesses operated inventory-light as a way to manage tariff uncertainty. We've heard anecdotally from some firms in the wake of the Supreme Court's ruling against IEEPA tariffs that they view these next 150 days of Section 122 tariffs as a period of reprieve, both in terms of clarity and for some in terms of tariff rates. They're importing more or bringing goods out of foreign trade zones as a result.

A larger share of respondents did, however, report feeling their inventories were *too high* in February, but a majority (76.6%) continue to say inventory levels are about right compared to operations. While price pressure still remains elevated throughout the services industry, the drop in the February prices paid index to 63.0 leaves it at its lowest in about a year. Sixteen industries reported an increase in costs, with no industry reporting a drop, but it is the direction of travel here that is most encouraging for broader consumer inflation ([chart](#)). While price pressure isn't easing, it doesn't appear to be getting much worse.

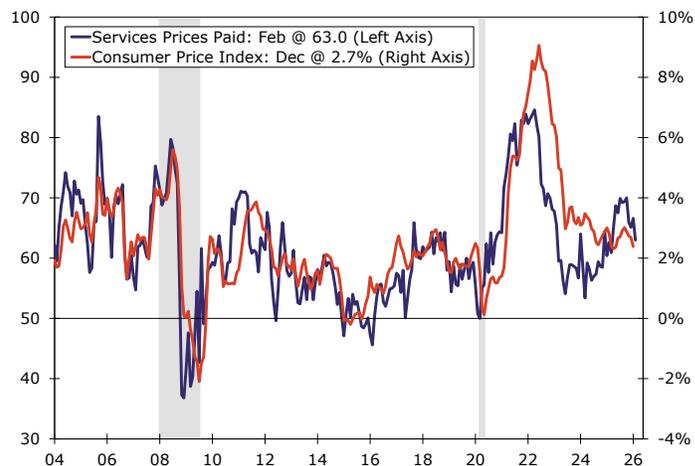
The labor backdrop also improved marginally with the index rising to 51.8. Hiring conditions still appear mixed across industries, but one respondent comment included pointing to an expected improvement in activity boosting hiring. When the full February employment report is released Friday, we [anticipate the economy added around 45K net new jobs](#), a more moderate pace than what has been registered over the past three months.

ISM Services Business Activity vs. New Orders



Source: Institute for Supply Management and Wells Fargo Economics

ISM Services Prices Paid vs. CPI



Source: Institute for Supply Management, U.S. Department of Labor and Wells Fargo Economics

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