



NEWS RELEASE

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March 24, 2023

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Tenth District Services Activity Declined Slightly in March
Federal Reserve Bank of Kansas City Releases March Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the March Services Survey today. According to Chad Wilkerson, senior vice president at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District services activity declined slightly in March, and expectations for future activity slowed moderately.

“Regional services activity declined slightly in March,” said Wilkerson. “With current price pressures, about 70% of firms reported lower profit margins from the beginning of the year.”

A summary of the survey is attached. Historical data, results from past surveys and release dates for future surveys are available at www.kansascityfed.org/surveys/services-survey/.

The Kansas City Fed’s monthly Survey of Tenth District Services provides information on several indicators of activity including sales, revenue, employment and capital spending, while identifying changes in prices of input materials and selling prices. Survey participants represent a variety of industries, including retail and wholesale trade, automobile dealers, transportation, information, high-tech and professional services, real estate, education, restaurants, health services, tourism and other services firms.

The Federal Reserve Bank of Kansas City serves the Tenth Federal Reserve District, encompassing the western third of Missouri; all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming; and the northern half of New Mexico. As part of the nation’s central bank, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing financial services to depository institutions. More information is available online at www.kansascityfed.org.

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TENTH DISTRICT SERVICES SUMMARY

Tenth District services activity declined slightly in March and expectations for the next six months slowed moderately (Chart 1 & Table 1). Monthly price indexes for March eased slightly, while firm's expectations for future price indexes were mixed with an increase in input prices and a slight decrease in selling prices.

Business Activity Declined Slightly

The month-over-month services composite index was - 4 in March, down from 1 in February, and up from - 11 in January (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. The decline in revenue and sales was driven by slowing in wholesale trade, auto, and professional services activity. On the other hand, real estate, restaurants, and tourism activity increased in March. Month-over-month indexes were mostly negative in March and all indexes decreased except inventory levels and capital expenditures. The year-over-year composite index declined slightly from 2 to - 6 with employee hours worked and credit conditions moving into negative territory. Expectations for future services activity slowed moderately in March, and the composite index decreased from 13 to 2.

Special Questions

This month contacts were asked special questions about profit margins and changing prices. In March, given current price pressures, 68% of firms reported a decrease in profit margins since the beginning of the year, while 23% of firms reported no change, and 9% of firms reported an increase (Chart 2). Compared to last year, 51% of firms reported changing prices more often, 45% of firms reported no change, and 4% reported changing prices less often (Chart 3).

Selected Services Comments

“We are cutting back on holding inventory anticipating a significant slowdown in business as we go through 2023. Interest rates are shocking customers, and the additional cost of purchasing is slowing buying behavior.”

“The supply chain in real estate new construction has largely connected itself. The problem is materials except lumber have stayed at higher prices that have nothing to do with supply chain issues but more about creating more product at the expense of the end user, the new home buyer.”

“High interest rates are hurting business, both selling cars and internal expenses.”

“Delays in shipping is a vendor/manufacturer issue brought on by lack of availability. We can't rely on inventory levels, so we promote at higher prices to ensure availability supporting promotion. Higher sales price translates to declining sales.”

“Qualified hourly employees are challenging to find.”

“Product needed is not stored and ready. Orders are delayed as vendors are not keeping inventory on hand.”

“We have seen huge increases in our cost of inventory, parts and shipping. We have also seen increases in our interest on our lines of credit.”

“Very significant slowdown in single family starts and many of the starts may be for rent to own. Multifamily backlog that has not yet started.”

“Delays in shipping continue to impact our capital deployment timelines. Warehousing and storage is improving, but at a high cost, and product availability is better.”

“Supply chain related product increases and expenses like utilities are increasing faster than we can react, along with slowing sales.”

Table 1. Summary of Tenth District Services Conditions, March 2023

	March vs. February (percent)*					March vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}	Increase	No Change	Decrease	Diff Index [^]	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}
Plant Level Indicators														
Composite Index				-2	-4				-6				8	2
General Revenue/Sales	25	47	28	-3	-5	38	16	46	-9	37	38	25	12	6
Number of Employees	16	67	17	-1	-2	26	38	36	-10	26	49	25	1	-5
Employee Hours Worked	13	69	18	-4	-6	25	46	28	-3	21	61	18	3	2
Part-Time/Temporary Employment	6	84	10	-4	-6	13	69	18	-4	13	75	12	1	3
Wages and Benefits	23	70	7	16	22	72	20	7	65	51	44	4	47	53
Inventory Levels	21	60	19	1	-3	30	46	24	6	24	58	18	6	3
Credit Conditions/Access to Credit	5	86	9	-5	-4	3	84	13	-10	3	88	9	-6	-4
Capital Expenditures	22	67	12	10	13	33	48	19	14	35	47	18	18	24
Input Prices	40	51	9	31	34	79	10	10	69	63	32	4	59	64
Selling Prices	19	65	16	3	6	52	25	23	29	41	45	14	26	33

*Percentage may not add to 100 due to rounding.

[^]Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

^{^^}Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-13.

Note: The March survey was open for a five-day period from March 15-20, 2023 and included 69 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes



Chart 2. Special Question: Given current price pressures, how have profit margins changed for your firm since the beginning of the year?

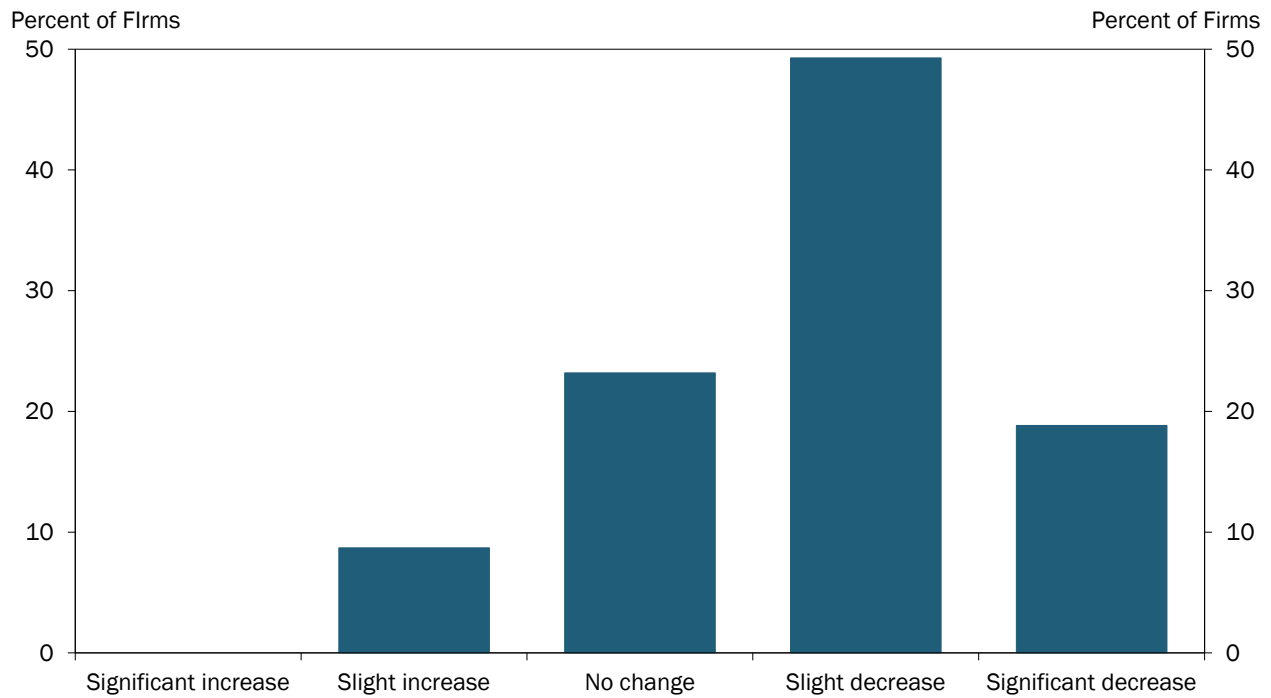


Chart 3. Special Question: How much more or less frequently is your firm changing prices compared to last year?

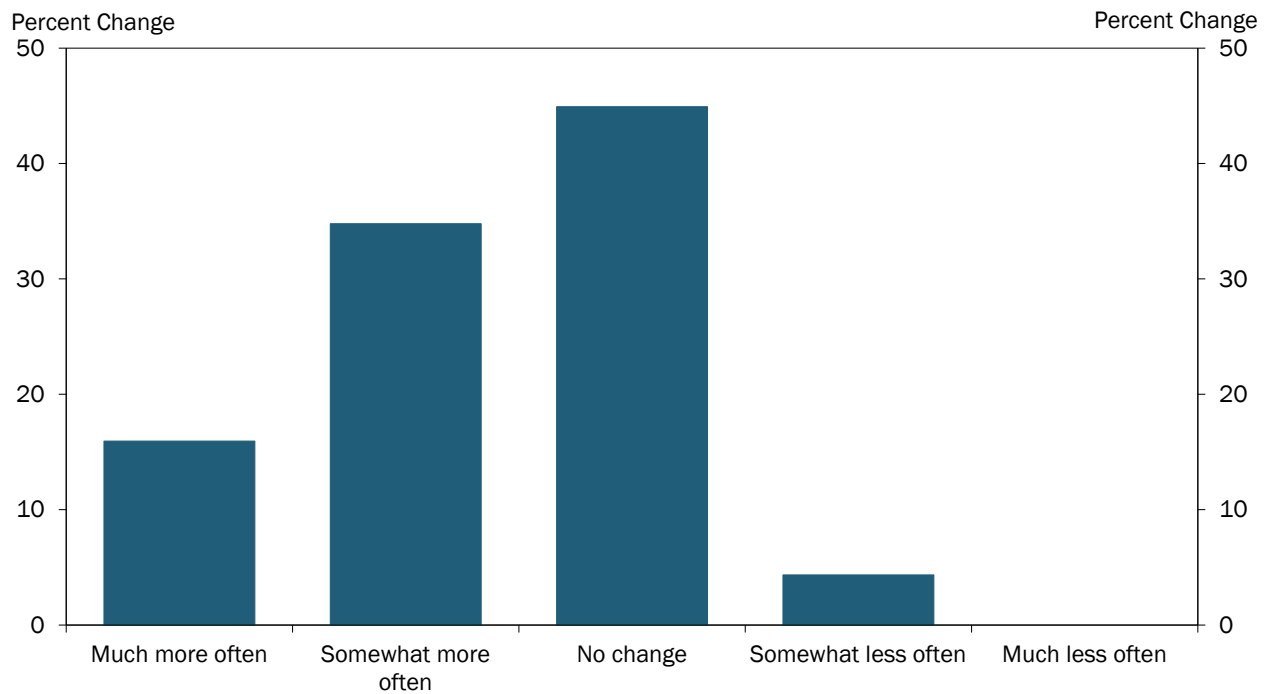


Table 2
Historical Services Survey Indexes

	Mar'22	Apr'22	May'22	Jun'22	Jul'22	Aug'22	Sep'22	Oct'22	Nov'22	Dec'22	Jan'23	Feb'23	Mar'23
Versus a Month Ago (seasonally adjusted)													
Composite Index	25	17	18	14	4	14	18	8	12	0	-11	1	-4
General Revenue/Sales	28	16	22	10	3	13	22	5	11	-1	-22	1	-5
Number of Employees	23	18	21	22	1	14	13	7	9	-9	-5	5	-2
Employee Hours Worked	27	18	19	11	17	10	16	3	2	3	-2	2	-6
Part-Time/Temporary Employment	11	6	12	9	2	2	-2	-6	-6	-8	0	-4	-6
Wages and Benefits	52	46	45	37	34	33	38	22	21	31	23	33	22
Inventory Levels	18	19	1	13	12	18	16	19	18	18	8	-4	-3
Credit Conditions/Access to Credit	-2	4	-6	-5	-5	-2	-3	-9	-5	-8	-4	3	-4
Capital Expenditures	25	20	16	27	16	14	17	8	9	7	12	10	13
Input Prices	75	72	72	66	64	54	54	51	40	34	38	42	34
Selling Prices	54	52	47	36	33	37	37	21	18	7	8	10	6
Versus a Year Ago (not seasonally adjusted)													
Composite Index	27	32	28	27	18	16	16	17	21	14	2	2	-6
General revenue/sales	29	41	32	28	15	17	18	13	20	14	-3	-2	-9
Number of employees	25	22	27	28	14	8	12	17	22	3	-9	-2	-10
Employee hours worked	29	34	20	16	19	10	17	2	16	9	-7	0	-3
Part-time/temporary employment	13	17	17	10	11	10	4	-2	-1	-8	-7	-4	-4
Wages and benefits	76	83	68	70	75	69	76	66	67	68	72	74	65
Inventory levels	25	26	19	22	32	23	19	27	23	30	29	17	6
Credit conditions/access to credit	1	4	0	-7	-5	-1	1	-5	-8	-8	-1	4	-10
Capital expenditures	31	24	29	38	25	21	34	20	14	16	16	19	14
Input prices	81	79	86	83	81	83	88	84	77	69	68	70	69
Selling prices	71	76	76	69	64	66	72	55	61	39	40	43	29
Expected in Six Months (seasonally adjusted)													
Composite Index	36	38	25	17	19	13	12	12	17	4	-2	13	2
General revenue/sales	43	39	31	20	24	12	13	13	14	8	-7	19	6
Number of employees	39	44	24	18	14	18	9	13	24	-4	9	8	-5
Employee hours worked	24	32	6	11	10	5	6	6	7	1	4	14	2
Part-time/temporary employment	6	18	2	6	0	0	-10	-1	-1	-7	1	-1	3
Wages and benefits	65	67	62	53	54	52	51	44	51	52	54	58	53
Inventory levels	13	25	11	9	15	8	12	10	13	8	-5	4	3
Credit conditions/access to credit	-2	1	-7	-6	-4	-1	-1	-6	-5	-5	-3	-2	-4
Capital expenditures	22	32	20	21	14	15	20	7	13	8	13	17	24
Input prices	70	65	74	69	65	63	66	60	55	60	56	60	64
Selling prices	59	61	55	53	52	42	60	35	41	23	32	36	33