Regional services activity increased modestly in February. Many firms reported higher cost increases for a number of input materials and operating costs. Around 46% of firms indicated they are able to pass through 20% or less of cost increases on to customers in the form of higher prices.

**Business Activity Grew Moderately**

Tenth District services activity grew moderately in February, and activity was expected to expand further over the next six months (Chart 1 & Table 1). Indexes for input and selling prices increased more in February compared to a month ago. Most firms continued to expect input and selling prices to rise over the next six months.

The month-over-month services composite index was 12 in February, lower than 15 in January, but up slightly from 11 in December (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. The increase in revenue and sales was driven by more retail, transportation, and professional and high-tech services activity. However, auto, healthcare, and restaurant activity declined. Month-over-month indexes remained positive in February, indicating expansion. In particular, the indexes for employment, wages and benefits, and capital expenditures increased at a faster pace. The inventory and access to credit indexes also edged higher. The year-over-year composite index eased modestly from 37 to 32, but capital expenditures continued to increase from year-ago levels. Expectations for services activity expanded further in February. The future composite index grew from 37 to 41, with additional increases in expectations for revenue and sales, access to credit, and capital spending.
Special Questions

This month contacts were asked special questions about business costs and how much of their costs care passed through in the form of higher prices. In February, 88% of businesses reported higher costs from wages and 66% of firms reported higher costs from non-wage benefits (Chart 2). Over a third of business contacts reported higher financing costs, though most reported no change, and around 60% of firms reported higher real estate expenses (e.g. rent, maintenance, and construction). Most firms reported higher costs of some sort. Roughly 46% of firms indicated the ability to pass through 20% or less of cost increases to customers in the form of higher prices (Chart 3). On the other hand, 24% of firms reported they could pass through 80-100% of cost increases. Several contacts noted that the pace of cost increases has made it difficult to pass through changing costs via price increases to customers.

Selected Services Comments

“We are optimistic that things will return to normal and hiring will pick up in the year ahead. At this point, as a small staffing business, we are still feeling that there is a labor supply shortage.”

“We can’t find enough workers and can’t get some of our workers to show up and work. We can’t get enough product. Our costs keep going up.”

“Capital expenditures are down because lead times on new equipment are over 12 months.”

“Liability insurance costs associated with commercial transportation have increased considerably. We have experienced premium increases of 20% in each of the last two years, with the latest increase occurring in February. We have been moderately successful in passing these increased costs along to the consumer via freight rate increases and product margin increases.”

“Overall activity is strong... we have finally been able to hire solid candidates. Nearly all open positions have been filled.”

“Since there is a shortage of truck drivers, customers are willing to pay most anything, within reason, to make sure their freight [is delivered] safe and on time.”

“We have eaten cost increases in the past, but 20% price increases are causing us to have to raise our prices. We cannot keep bleeding [profit] margins or we will not make money.”

“The higher the wages, the higher our billings.”
“I will try to absorb as much increased costs as possible but can’t absorb it all... may cut back on non-critical investments, delay replacing equipment.”

“Price changes are coming at us so fast we can't keep up. By the time we have increased our pricing to clients we are hit with another.”

“We are able to pass on price increases thus far but starting to face resistance.”

Survey Data

Current Release

Historical Monthly Data

About the Services Survey
Chad Wilkerson
Senior Vice President and Oklahoma City Branch Executive

Chad Wilkerson serves as Oklahoma City Branch Executive and Senior Vice President of Community Development for the Federal Reserve Bank of Kansas City. Wilkerson has been with the Federal Reserve since 1998, starting in Kansas City’s research department. Appointed in 2006 as Oklahoma City Branch Executive, Wilkerson is the Bank’s lead officer and regional economist in Oklahoma. He recruits and works closely with the Oklahoma City Branch Board of Directors and is responsible for briefing the Kansas City Fed president, a member of the Federal Open Market Committee, on economic trends in the state. His team conducts research and surveys on key regional issues such as energy, manufacturing and migration. Wilkerson was appointed Senior Vice President in 2022, and supports a Community Development team located across the Kansas City Fed’s seven-state region. This group works to understand and address issues affecting the ability of underserved communities and small businesses to access credit. Community development focus areas include financial resiliency, affordable housing, community investments, workforce development, rural development and digital inclusion. Wilkerson holds a master’s degree in public policy from the University of Chicago, as well as a master’s degree from Southwestern Seminary and bachelor’s degree from William Jewell College. He serves on the boards of the Economic Club of Oklahoma, the United Way of Central Oklahoma and City Rescue Mission. He lives in Edmond, Oklahoma, with his wife and children.