Services Survey

Tenth District Services Activity Increased to Record Levels

by: Chad Wilkerson

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Regional services activity increased at a record pace in March. However, many firms continued to comment on supply chain disruptions and increased input costs as having a negative impact on profit margins.

Business Activity Increased to Record Levels

Tenth District services activity increased to record high levels and expectations for future activity remained solid (Chart 1 & Table 1). Compared to the previous month, indexes for input prices increased slightly, while selling prices took a modest dip in March. Most firms continued to expect input and selling prices to rise over the next six months.

The month-over-month services composite index was 30 in March, higher than 12 in February and 15 in January (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 wholesale trade, retail trade, and restaurant activity. However, auto activity declined. Month-over-month indexes remained positive in March, indicating expansion. In particular, the indexes for employment and inventories remained solid, but indexes for wages and benefits access to credit, and capital expenditures saw a slight decline. The year-over-year composite index eased modestly from 32 to 27, but the capital expenditure index remained unchanged from year-ago levels. Expectations for services activity remained positive in March. The future composite index was mostly unchanged at 40, but future indexes for revenue and sales, access to credit, and capital spending posted slight declines. However, the future employment and wages and benefits indexes increased in March.

Special Questions

This month contacts were asked special questions on profit margins, changing prices, and the impact of the Russia/Ukraine conflict on their business. In March, 40% of firms reported raising prices much more often compared to last year, and 32% increased prices somewhat more often (Chart 2). However, 38% of firms reported a slight decrease and 14% reported a significant decrease in profit margins since the beginning of the year (Chart 3). Firms reported that the majority of impacts from the Russia/Ukraine conflict centered around supply chain disruptions and higher input costs.

Selected Services Comments

“We sell used vehicles. Almost 100% of our inventory is purchased and already in the US. Our increased cost of labor, energy costs, fuel costs and shipping are having an adverse effect in the used vehicle market.”

“Cannot raise prices in restaurants fast enough for price increases without negatively impacting customer counts. Absorbing some of the costs to minimize lost customer visits.”

“The cost of inventory and shipping is up 25 to 40% along with wage increases. There is a limit on what a consumer will pay for our product, especially when you add in cost of energy and fuel prices. So naturally, with these increases our profit is lower.”

“The combo of higher interest rates and increased construction costs are killing us.”

“Fuel costs have hit our warehouse and delivery lines hard.”

“Freight costs and input costs are rising faster than our price increases to retailers.”

“The Russia/Ukraine conflict is just exacerbating the already disrupted supply chain and cost of the last two years of COVID panic. We are seeing multiple fuel price adjustments which is built into the food chain supply line as a general rule. The transportation cost appears to be the biggest effect of the conflict on our business at the current state of fighting…”

“To stay competitive, we are not able to raise our prices enough to cover expected margins.”

Survey Data

Current Release

Historical Monthly Data

About the Services Survey

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Chad Wilkerson serves as Oklahoma City Branch Executive and Senior Vice President for the Federal Reserve Bank of Kansas City. Wilkerson began his career with Federal Reserve in the Kansas City research department in 1998, before accepting the role of Oklahoma City Branch Executive in 2006. In 2022, Wilkerson was appointed Senior Vice President.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.Serving as Senior Vice President of Community Development, Wilkerson supports community development staff 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.