Services Survey

Growth in Tenth District Services Activity Declined Slightly

by:

December 23, 2022

Regional services firms reported a slight decline in activity in December. The employment index fell for the first time since 2020 and recorded the second lowest level in survey history.

Business Activity Declined Slightly

Tenth District services activity declined slightly in December, and expectations for future activity slowed moderately but remained positive (Chart 1 & Table 1). Compared to the previous month, the input price index inched upward while the selling price index decreased slightly, reaching its lowest level since May 2020. Expectations for future input and selling price increases fell compared to previous levels.

The month-over-month services composite index was -5 in December, down from 10 in November and 6 in October (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventories indexes. The decline in growth was driven by decreased activity in restaurants, wholesale trade, transportation, and autos. Most month-over-month indexes declined and were negative in December. The monthly employment index fell from 6 to -13, the second lowest level in survey history. The year-over-year composite index decreased from 21 to 14, but the wages and benefits, inventory, and capital expenditures indexes inched slightly higher than previous levels. Expectations for services activity decreased from 12 to 4 in December, however indexes for inventory and credit conditions had slightly higher readings than last month.

Special Questions

This month contacts were asked special questions about price pass through and expectation for wages and prices. In December, about 39% of firms expected wages to rise faster compared to the past 12 months, while 29% of firms expected wages to rise at a similar rate and 27% of firms expected wages to rise more slowly (Chart 2). About 25% of all firms facing higher costs (inputs and labor) were able to pass through 80 to 100% of increased costs, while 37% of firms could only pass through 0 to 20% (Chart 3).

Selected Services Comments

“Inflation, meaning higher construction costs and higher interest rates, are killing commercial real estate development.”

“Single family home permits down 24% over the last 3 months. This will go lower for the first quarter of the year.”

“You cannot raise prices enough to pay for increases in food and labor. At some point the consumers will stop going out, and then you lose transactions and sales. Prices need to go up over 15% for 2023 to cover increases - about the same as 2022 but didn’t cover costs that year either.”

“We are planning on not passing on to our customers the higher prices we are seeing. Strategically we are evaluating lowering our margin to absorb this.”

“We have not been able to get enough inventory for 2 years. I fear that in 2023 demand will drop, so we will have real problems. Not enough inventory and less demand.”

“We feel the sluggish demand for product because of higher interest rates. December is usually a good month, but things are down. January and February could be very difficult.”

Survey Data

Current Release

Historical Monthly Data

About the Services Survey
