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

Business Activity Declined Slightly

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.

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.”

**Survey Data**

Current Release

Historical Monthly Data

About the Services Survey
Authors

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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.

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