



## Tenth District Services Activity Grew Slightly

by: Megan Williams and Chase Farha

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Regional services activity in the business sector grew moderately, while consumer sector activity was essentially flat. Growth in input prices continues to outpace increases in output prices, as nearly half of firms only pass 0-20% of cost increases to customers.

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### Tenth District Services Activity Grew Slightly

Tenth District services activity grew slightly in February, with growth in the business sector and steady activity in the consumer sector. Expectations for future activity remained expansionary (Chart 1 & Table 1). Input price growth accelerated this month and continues to far outpace selling price increases.

The month-over-month services composite index was 2 in February, up from -4 in January and down from 4 in December (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Growth in the business sector was primarily driven by real estate and professional services. The consumer sector was mostly flat, with declines in wholesale and autos and increases in education and health. The month-over-month indexes were mixed. General revenue/sales were mostly flat this month, increasing from -8 to -1, while employment grew modestly. Services growth cooled from this time last year, with the composite index easing from 17 to 6. Revenues declined slightly with a reading of -2. Growth in the business services sector accelerated from this time last year while it eased in the consumer sector, a reversal of previous trends (Chart 2). Capital expenditures increases also cooled year-over-year. Expectations for future services activity increased, as firms are more optimistic about future sales.

### Special Questions

This month contacts were asked special questions about trade policy and passthrough ability. A majority of firms (54%) reported that they believe the recent trade policy changes will not affect their firms' demand or revenues, while 26% reported believing the changes will lower revenues, and 15% believe they will increase revenues. Additionally, 3% (2%) of firms believe the changes will make revenues significantly lower (significantly higher). (Chart 3). Contacts were also asked about their ability to pass through higher costs to their customers. Nearly half (47%) of firms reported passing through 0-20% to their customers, 4% reported passing through 20-40%, 13% reported 40-60%, 14% reported 60-80%, 15% reported 80-100%, 1% reported more than 100%, and 6% of firms had decrease prices (Chart 4).

## Selected Services Comments

“Anticipate the effects of E-coli outbreak will diminish by mid-year.”

“In general, we are facing downward pressure on our margins. Payers are demanding lower fees as they are also facing downward pressure on margins. There is a real competition for available dollars in a race to the bottom.”

“My costs go up, menu prices go up. I cannot eat those increases.”

“Business demand has never been stronger.”

“Many of the customers that our industry serves will feel the pinch of increased prices and will attempt to lower their total costs by negotiating very hard on our industry. We're the shipping and handling that nobody likes to pay.”

“We live in an uncertain country and world. The financial markets want certainty and certainty is in short supply.”

“Uncertainty tends to make people back away from large ticket purchases such as housing.”

“We have been able to pass some of our additional costs onto customers. We have had more success passing on labor costs in the billable rate, however, on our sales we have had less luck.”

## Survey Data

[Current Release](#)

[Historical Monthly Data](#)

[About the Services Survey](#)

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## Authors



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