



NEWS RELEASE

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Tenth District Services Activity Dipped Slightly
Federal Reserve Bank of Kansas City Releases December Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the December Services Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District services activity dipped slightly from a month ago and remained below year-ago levels, but expectations for future activity increased further.

“Regional services activity declined in December after increasing for several months,” said Wilkerson. “Many firms commented on an increase in consumer caution contributing to less business activity. Additionally, contacts reported that more employees have missed work recently after testing positive for COVID-19 or being exposed to the virus.”

The Kansas City Fed’s monthly Survey of Tenth District Services provides information on several indicators of activity including sales, revenue, employment and capital spending, while identifying changes in prices of input materials and selling prices. Survey participants represent a variety of industries, including retail and wholesale trade, automobile dealers, transportation, information, high-tech and professional services, real estate, education, restaurants, health services, tourism and other services firms. Historical data, results from past surveys and release dates for future surveys are available at www.kansascityfed.org/research/indicatorsdata/services.

The Federal Reserve Bank of Kansas City serves the Tenth Federal Reserve District, encompassing the western third of Missouri; all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming; and the northern half of New Mexico. As part of the nation’s central bank, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing financial services to depository institutions. More information is available online at www.kansascityfed.org.

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TENTH DISTRICT SERVICES SUMMARY

Tenth District services activity dipped slightly from a month ago and remained below year-ago levels, but expectations for future activity increased further (Chart 1 & Table 1). The indexes for input and selling prices expanded at a faster pace than a month ago and remained above year-ago levels. Firms expected input and selling prices to increase more in the next six months.

Business Activity Dipped Slightly

The month-over-month services composite index was -4 in December, down from 10 in November and 12 in October (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Month-over-month indexes were mixed in December. The general revenue and sales index decreased due to slower auto, transportation, tourism, and restaurant activity. On the other hand, retail and real estate activity expanded somewhat. The inventory index posted no change from last month, while indexes for employee hours and part-time employment edged lower. On the other hand, the employment, wages and benefits, and access to credit indexes expanded. Year-over-year indexes continued to decline in December, and the year-over-year composite moved from -16 to -17. Expectations for future services activity increased further, and the composite index rose from 13 to 16.

Special Questions

This month contacts were asked special questions about the recent surge in COVID-19 cases and their expectations regarding capital outlays and restraints. Over 70% of contacts indicated the recent surge in COVID-19 cases has negatively affected their firm's business (Chart 2). Contacts noted more customer reluctance and caution resulting in less demand, and many businesses noted more employees have missed work recently after testing positive for COVID-19 or being exposed to the virus. Regarding capital outlays, half of firms surveyed reported investing in IT infrastructure as their primary motivation for the upcoming year, and 35% listed labor-saving technology (Chart 3). Additionally, a third of contacts said equipment to enhance production capacity and/or market expansion was a primary motivator for capital outlays in the upcoming year. On the other hand, 32% of firms indicated they will be reducing capital outlays for facilities for the upcoming year.

Selected Services Comments

“It is difficult to operate with the constant expansion and contractions in rules. Going to "stay at home" in most markets crushes sales and employee morale (they worry about the business and exposure to people). When geographies come off "stay at home" we are not the first place [customers] shop; it takes a couple of weeks of them shopping at the big mass stores, then they start to come back to us. About that time the third or fourth "stay at home" order hits and it starts all over again.”

“Overall, we have become quicker to shed labor and overhead costs when possible and focus on keeping core staff. Once core staff is gone a rebound may not be possible.”

“Still sense high customer apprehension over COVID-19. We are planning for continued apprehension and no "new normal" for some time to come. Maybe 12 to 18 months at best. We'll see how the vaccine is received and reevaluate.”

“We have experienced more positive testing during the last wave than we did the previous two.”

“The labor force is exhausted and stretched beyond our ability to keep up. We hope to be able to support testing to "return to work" but that financing is questionable. Who pays? Medical insurance? Employers?”

“Virtual school and unemployment make it impossible to get employees.”

“Marketing is very difficult in this environment and much of our sales have been affected.”

“Consumers seem reluctant to make large purchases with concerns of their future employment.”

“No capital outlays for the next 12 months.”

“We plan to build technology solutions for customer expansion.”

“Sales have stayed elevated over pre-COVID but quarantine time and employee absenteeism are beginning to be more difficult to manage. Net, we see little or no change as long as it doesn't get much worse.”

“Best year in history in sales and profits, increased our match for 401k.”

Table 1. Summary of Tenth District Services Conditions, December 2020

Plant Level Indicators	December vs. November (percent)*					December vs. Year Ago (percent)*					Expected in Six Months (percent)*				
	No		Diff	SA	Index [^]	No		Diff	Index [^]	No		Diff	SA	Index ^{^^}	
	Increase	Change				Decrease	Increase			Change	Decrease				Increase
Composite Index				-9	-4				-17				23	16	
General Revenue/Sales	23	35	42	-19	-13	38	8	54	-16	57	20	23	34	27	
Number of Employees	19	66	15	4	8	24	34	42	-18	35	51	14	22	15	
Employee Hours Worked	14	65	22	-8	-4	27	38	35	-9	37	47	16	20	14	
Part-Time/Temporary Employment	14	71	15	-1	-1	14	67	19	-5	20	66	14	6	2	
Wages and Benefits	20	71	9	11	14	59	27	14	46	49	41	10	39	33	
Inventory Levels	21	56	23	-3	0	18	47	35	-17	18	60	22	-4	-9	
Credit Conditions/Access to Credit	6	91	3	4	3	9	82	9	0	11	84	5	6	5	
Capital Expenditures	15	72	13	3	1	29	42	29	0	33	52	15	18	12	
Input Prices	33	65	1	32	32	56	36	8	49	51	46	3	49	48	
Selling Prices	27	61	13	14	17	54	28	18	37	47	44	9	38	33	

*Percentage may not add to 100 due to rounding.

[^]Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

^{^^}Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-13.

Note: The December survey was open for a five-day period from December 9-14, 2020 and included 79 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes

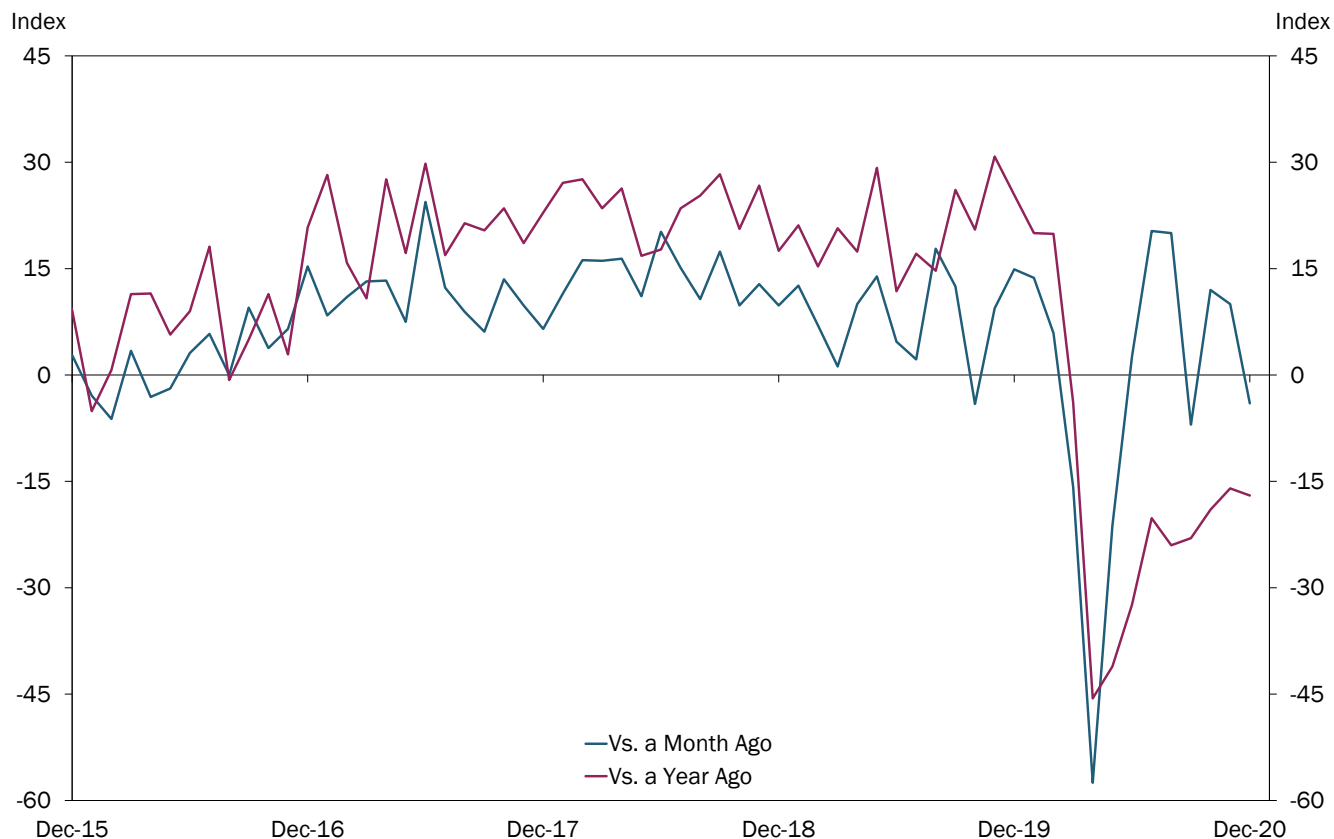


Chart 2. Special Question: How is the recent wave of COVID cases affecting your firm's business?

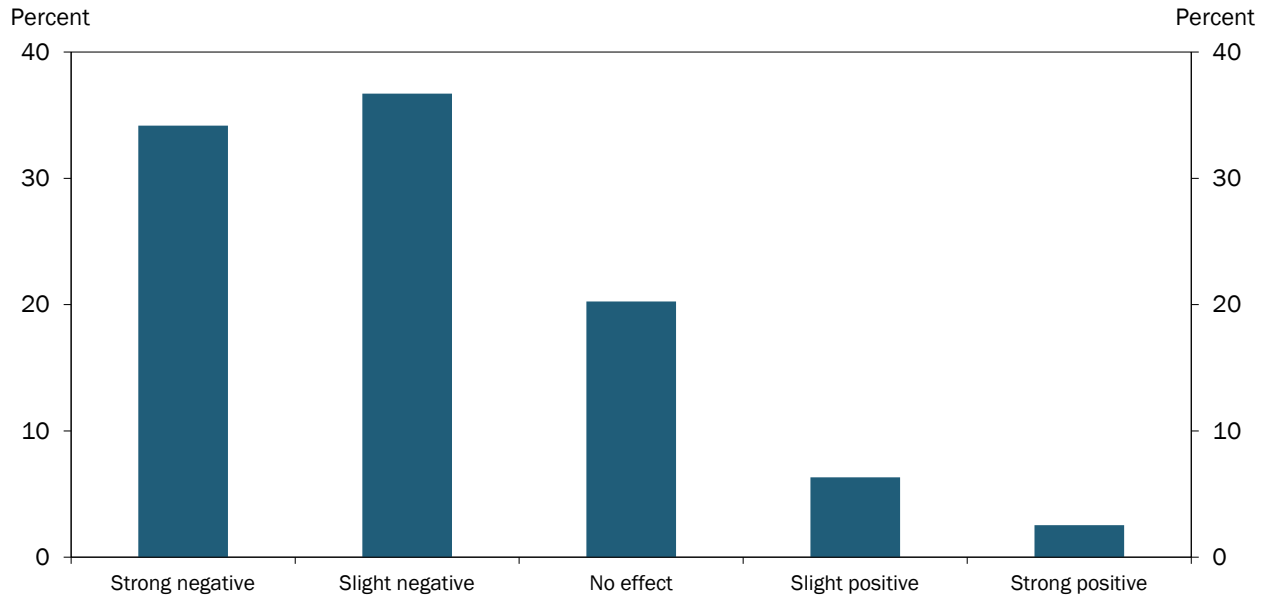


Chart 3. Special Question: Which of the following are your firm's primary motivations for capital outlays in the upcoming year? If applicable, in which areas is your business reducing capital outlays? (check all that apply)

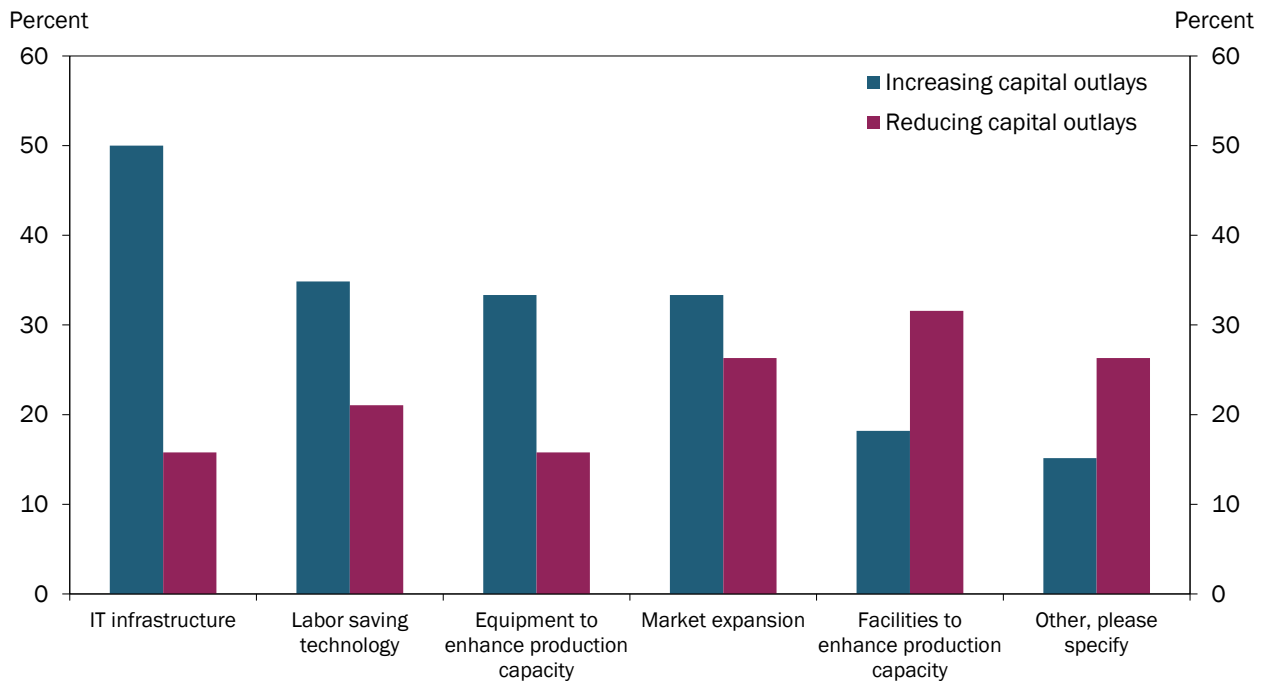


Table 2
Historical Services Survey Indexes

	Dec'19	Jan'20	Feb'20	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Sep'20	Oct'20	Nov'20	Dec'20
Versus a Month Ago (seasonally adjusted)													
Composite Index	15	14	6	-16	-58	-21	3	20	20	-7	12	10	-4
General Revenue/Sales	19	16	7	-17	-81	-21	12	37	37	-18	17	17	-13
Number of Employees	18	13	6	-15	-42	-19	2	12	10	9	7	6	8
Employee Hours Worked	10	4	18	-19	-69	-31	2	15	20	6	11	0	-4
Part-Time/Temporary Employment	15	6	12	-24	-37	-25	-10	1	5	0	3	0	-1
Wages and Benefits	28	29	34	1	-22	-6	10	16	30	19	18	9	14
Inventory Levels	0	9	3	-14	-22	-25	-20	-9	-9	-3	8	-4	0
Credit Conditions/Access to Credit	2	2	-1	-2	-4	-4	-7	-3	-4	1	2	-1	3
Capital Expenditures	9	15	8	-12	-33	-25	-13	3	17	10	3	4	1
Input Prices	26	33	22	17	-3	13	39	30	37	29	34	25	32
Selling Prices	15	22	20	-4	-34	-15	9	13	16	15	25	11	17
Versus a Year Ago (not seasonally adjusted)													
Composite Index	25	20	20	-4	-46	-41	-32	-20	-24	-23	-19	-16	-17
General revenue/sales	37	26	28	-4	-58	-53	-40	-13	-24	-21	-16	-11	-16
Number of employees	23	16	17	-7	-42	-28	-16	-31	-22	-18	-29	-25	-18
Employee hours worked	17	22	23	-3	-55	-44	-30	-29	-22	-19	-13	-20	-9
Part-time/temporary employment	8	13	11	-10	-25	-26	-18	-20	-14	-10	-8	-13	-5
Wages and benefits	61	58	65	31	12	8	30	31	31	41	41	25	46
Inventory levels	0	11	4	1	-20	-31	-38	-22	-26	-33	-10	-16	-17
Credit conditions/access to credit	8	4	-3	0	-3	-10	-8	-12	-12	-1	0	1	0
Capital expenditures	23	15	10	-14	-29	-31	-22	-10	8	-7	2	0	0
Input prices	57	53	55	41	14	22	46	38	37	49	47	41	49
Selling prices	30	32	37	22	-19	1	14	20	22	33	24	41	37
Expected in Six Months (seasonally adjusted)													
Composite Index	15	28	23	-30	-28	-2	9	-2	11	19	7	13	16
General revenue/sales	19	34	30	-34	-36	-1	14	1	17	30	14	23	27
Number of employees	15	27	17	-31	-23	0	9	-4	10	10	0	2	15
Employee hours worked	7	26	15	-32	-26	-9	12	3	12	3	0	6	14
Part-time/temporary employment	3	15	15	-15	-5	5	11	-1	-4	-6	-6	-4	2
Wages and benefits	45	56	51	-10	6	20	29	32	27	32	21	20	33
Inventory levels	4	15	14	-18	-13	-9	-5	-6	-2	4	-2	6	-9
Credit conditions/access to credit	3	5	0	-14	-6	1	1	-4	-5	4	4	-1	5
Capital expenditures	13	19	1	-33	-30	-21	-7	-10	9	4	-4	10	12
Input prices	50	54	46	7	0	23	45	32	33	38	44	31	48
Selling prices	28	32	23	-12	-16	10	18	17	24	13	27	22	33