



NEWS RELEASE

FEDERAL RESERVE BANK *of* KANSAS CITY
DENVER • OKLAHOMA CITY • OMAHA

FOR IMMEDIATE RELEASE

Jan. 29, 2021

CONTACT: Pam Campbell

(405) 270-8617

Pam.Campbell@kc.frb.org

Tenth District Services Activity Expanded Modestly *Federal Reserve Bank of Kansas City Releases January Services Survey*

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the January 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 expanded modestly from a month ago but remained below year-ago levels, while expectations for future activity rose significantly.

“Regional services activity increased in January after dipping slightly in December,” said Wilkerson. “Many firms expressed widespread COVID-19 vaccination is important to their firm’s overall business outlook for 2021, but delays in vaccine distribution have contributed to uncertainty in the near-term.”

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. Due to the unique nature of the pandemic in 2020, historical seasonally adjusted data has not changed unlike in previous years. The volatile data observed in 2020 is not indicative of future seasonal trends and the Federal Reserve Bank of Kansas City will continue using the Census Bureau’s X-13 ARIMA SEATS seasonal adjustment protocol moving forward.

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.

###

TENTH DISTRICT SERVICES SUMMARY

Tenth District services activity expanded modestly from a month ago but remained below year-ago levels, while expectations for future activity rose significantly (Chart 1 & Table 1). The indexes for input and selling prices continued to increase at a faster pace than a month ago, especially the input price index which reached its highest reading in survey history (since 2014). Firms expected input and selling prices to continue to grow in the next six months.

Business Activity Expanded Modestly

The month-over-month services composite index was 8 in January, up from -4 in December but slightly lower than 10 in November (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Most month-over-month indexes were positive in January. The general revenue and sales index increased due to higher wholesale, retail, real estate, professional and technical services, healthcare, and restaurant activity. However, auto, tourism, and hospitality activity declined. The access to credit index posted no change from last month, while inventories dipped. On the other hand, the employment, employee hours, part-time employment, wages and benefits, and capital expenditures expanded. Year-over-year indexes declined again in January, and the year-over-year composite moved from -17 to -15. Expectations for future services activity rose to the highest level since January 2020, with the composite index climbing from 16 to 28.

Special Questions

This month contacts were asked special questions about the potential effects of widespread COVID-19 vaccination on business activity. 89% of firms indicated widespread COVID-19 vaccination is important to their firm's overall business outlook for 2021, with 32% calling it "somewhat important" and 57% labeling it "very important" (Chart 2). Many contacts commented on the need to return to business as normal but noted continued employee and consumer caution due to COVID-19. For hiring, 15% of contacts indicated the COVID-19 vaccine rollout has negatively affected plans for 2021 because of the delayed vaccine rollout (Chart 3). However, 21% of contacts noted the vaccine rollout has positively affected hiring plans for the second half of 2021. For capital spending, 14% of firms indicated the vaccine rollout has had negative effects on plans for 2021 again because of the slow rollout and general uncertainty. On the other hand, 11% of firms reported positive capital spending plans for 2021 based on the vaccine rollout. Overall, most firms noted the vaccine rollout has had no serious impact on hiring and capital spending plans in 2021 so far but may impact plans once more people are vaccinated.

Selected Services Comments

“Significant concern about new government taxes and regulation with the new Administration.”

“Clarity from the government on numerous rumored policy changes is needed. Until that comes, hiring and capital investment decisions will be deferred.”

“We are encouraged that the vaccine roll-out will lead to reopening our economy and getting people back to work.”

“We are expecting an uptick in overall activity in the 3rd and 4th quarters and may adjust head count upwards to accomplish this.”

“We are hoping that the COVID-19 vaccine will encourage more people to go back to work.”

“Once the vaccine is prevalent and employees/candidates are less fearful to be among the public we expect to have additional applicants and increase in business.”

“Sadly, about half the employees aren't going to get vaccinated unless made to do it.”

“Families still wary to dine out.”

“I will not open my dining rooms until there is a larger base of population vaccinated in order to protect my employees.”

“The demand for market-rate and affordable housing is extraordinary.”

“We are a regional company. We need to be able to travel. We expect the vaccine to make that more available.”

“Our business is done by meeting people in person for lunch, meetings, etc. Zoom and TEAMS help but are not a 100% capture of what we do.”

“We are in a wait and see period. We are reluctant to make any future plans for our business until we are comfortable that the economy will rebound, and consumer confidence is on the rise.”

Table 1. Summary of Tenth District Services Conditions, January 2021

	January vs. December (percent)*					January vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}	Increase	No Change	Decrease	Diff Index [^]	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}
Plant Level Indicators														
Composite Index				4	8				-15				30	28
General Revenue/Sales	35	37	28	6	10	38	11	51	-14	62	11	27	35	31
Number of Employees	26	61	13	12	15	27	28	44	-17	45	39	16	29	31
Employee Hours Worked	18	62	20	-1	3	23	41	36	-12	40	48	13	28	26
Part-Time/Temporary Employment	6	85	9	-2	1	14	64	22	-9	14	73	14	0	3
Wages and Benefits	30	65	5	26	23	48	35	17	31	44	48	9	35	38
Inventory Levels	15	58	27	-11	-10	23	41	36	-13	32	52	16	17	14
Credit Conditions/Access to Credit	6	88	6	0	0	11	84	5	6	8	89	4	4	4
Capital Expenditures	20	69	11	9	13	29	48	24	5	24	59	16	8	9
Input Prices	43	57	0	43	46	61	33	6	55	49	48	3	47	46
Selling Prices	28	65	7	21	22	47	40	14	33	40	51	9	31	30

*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 January survey was open for a five-day period from January 20-25, 2021 and included 82 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes

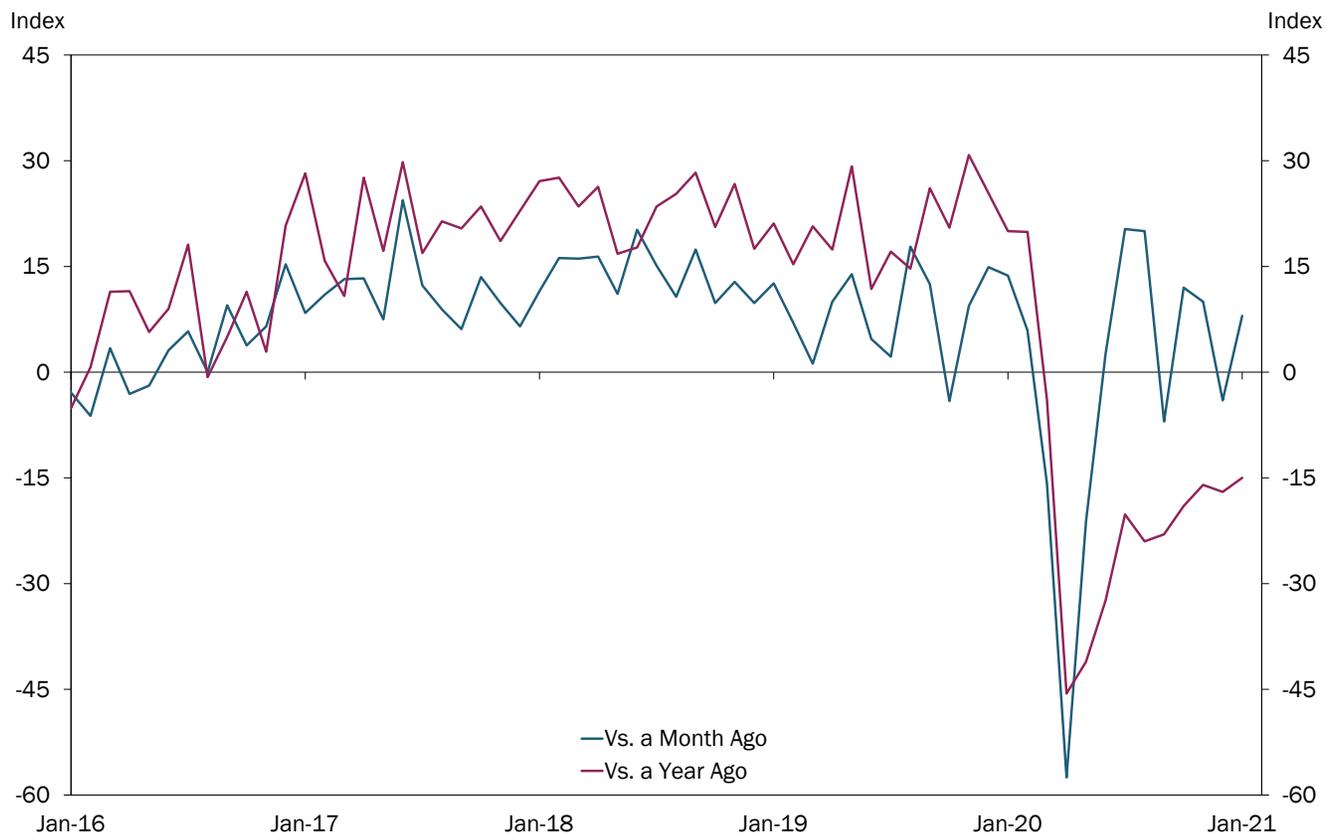


Chart 2. Special Question: How important is widespread COVID-19 vaccination to your firm's overall business outlook for 2021?

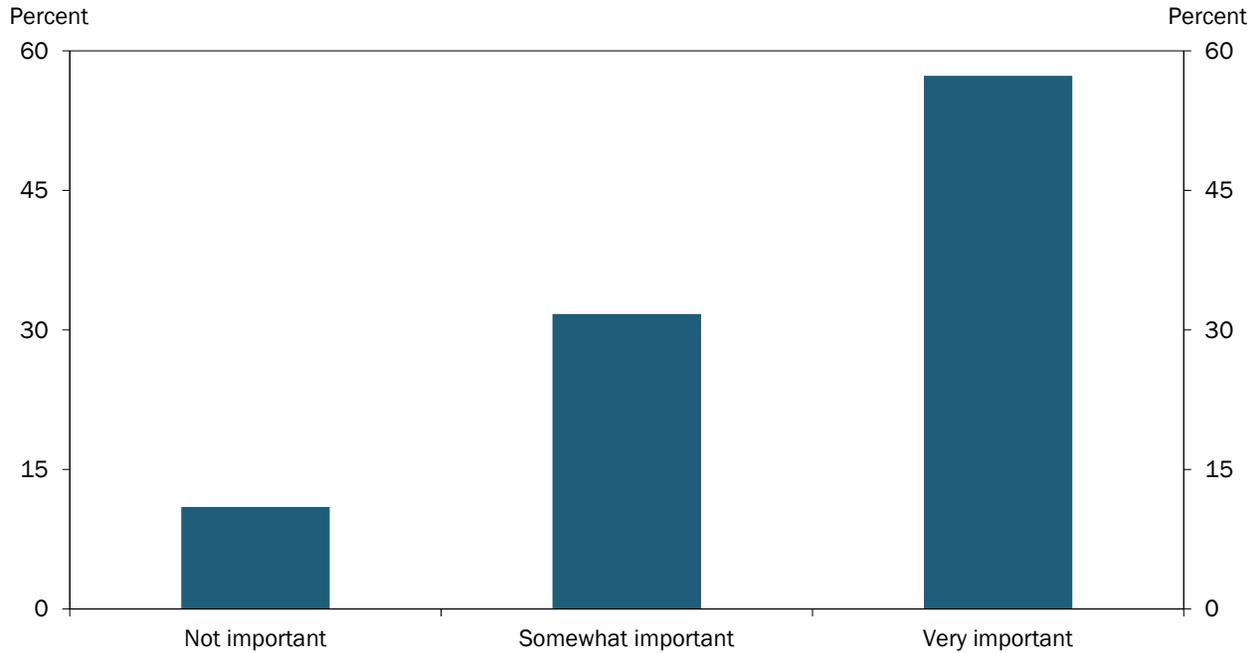


Chart 3. Special Question: How is the COVID-19 vaccine rollout affecting your firm's hiring and capital spending plans for 2021?

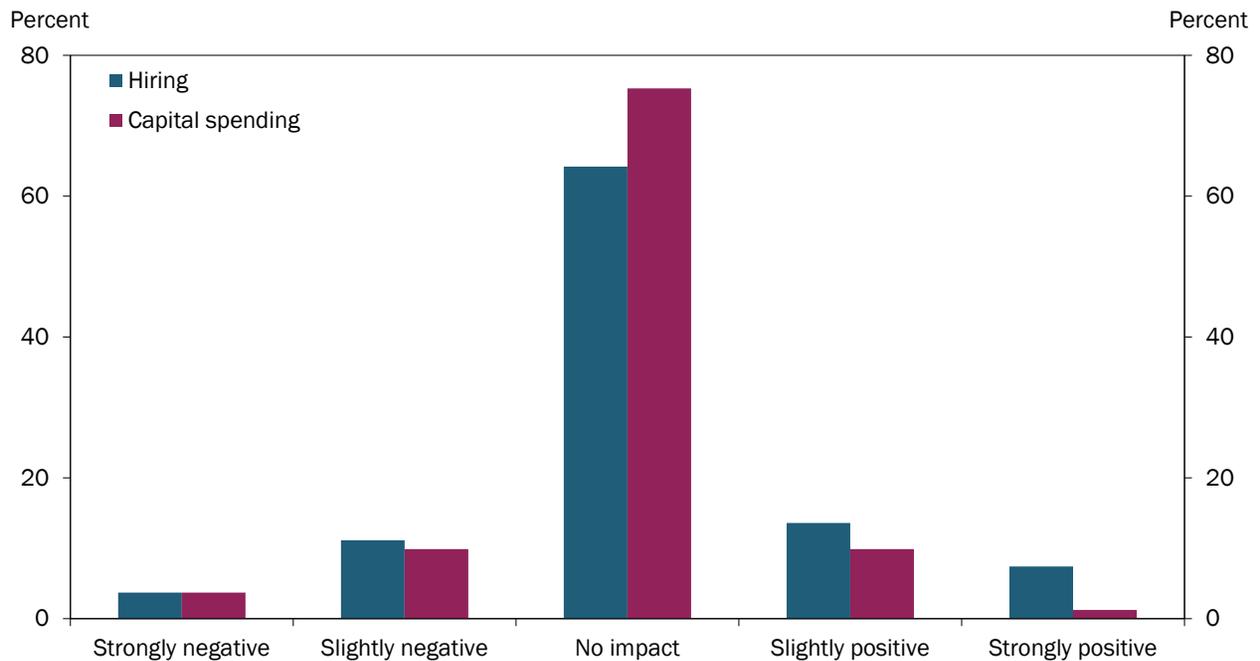


Table 2
Historical Services Survey Indexes

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