



NEWS RELEASE

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Feb. 26, 2021

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Tenth District Services Activity Moderated Slightly
Federal Reserve Bank of Kansas City Releases February Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the February 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 moderated slightly compared to a month ago but was still positive, while expectations for future activity remained solid.

“In February, regional services activity growth varied by industry,” said Wilkerson. “Supply chain disruptions and rising product costs have negatively affected business for most firms. Additionally, over half of contacts reported workers are in short supply.”

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 moderated slightly compared to a month ago but remained positive, while expectations for future activity remained solid (Chart 1 & Table 1). The pace of growth for input and selling price indexes eased slightly from historic highs last month but remained positive. Firms continued to expect input and selling prices to increase over the next six months.

Business Activity Moderated Slightly

The month-over-month services composite index was 1 in February, lower than 8 in January but up from -4 in December (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Month-over-month indexes were slightly mixed in February. The general revenue and sales index expanded slightly due to higher wholesale, professional and technical services activity. On the other hand, auto, transportation, real estate, healthcare, and restaurant activity declined. Indexes for employment, wages and benefits, and access to credit remained positive, while employee hours, inventory levels, and capital spending dipped slightly. Year-over-year indexes decreased moderately in February, with the year-over-year composite moving from -15 to -20. Expectations for future services activity eased slightly from last month, but remained solid with a composite index of 20.

Special Questions

This month contacts were asked special questions about worker shortages as well as materials prices and shipping delays. 55% of contacts indicated workers are in short supply, especially skilled hourly employees. Over half of firms recorded that a skills match is a key reason for the short supply of workers and 42% listed extra unemployment benefits as another reason (Chart 2). 40% indicated that the worker shortage is due to workers unwilling to return to work due to COVID, taking care of family, childcare issues, etc. Nearly 30% of firms noted that the lack of childcare for their current workforce has resulted in excessive absenteeism and a reduction in productivity. Concerning costs and shipping, around 64% of contacts said their business has been negatively affected by rising material prices and lack of availability/delivery time (Chart 3). Supply chain disruptions and increasing product costs have contributed to lower inventory levels.

Selected Services Comments

“We have noticed that considerably more time is being spent on recruiting employees. This in turn decreases our productivity in meeting our client needs which in turn affects our bottom line.”

“We are seeing more job applications than ever.”

“No workers that have the qualifications are available.”

“Business has been good, short on help, and there are still some shortcomings in the supply chain. The weather hasn't helped either.”

“The snowstorm has further hampered our business, but we are hoping for a strong rebound in energy due to economic recovery from the pandemic and storms.”

“Public schools being closed or on a virtual schedule has reduced the availability of employees with children, particularly women, to come to work. Depending upon the job, this has resulted in jobs being lost.”

“The shortage of new home construction is the biggest problem facing the real estate industry. Developers are far behind schedule.”

“The constant concern about possible tax hikes on small businesses are a huge problem for our future profit forecasting and makes me hesitant to plan any type of capital expenditures or even consider increasing our hiring.”

“There are more food shortages in supply chain due to COVID.”

“Major supply chain delays and price increases come daily.”

“To go food packaging will raise the price of to go food. Laytex gloves have went from \$29.95/1000 in December 2019 to \$139.50/1000 in December 2020. Every time an employee puts a set of gloves on, my raw cost went from .06 to .28.”

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

	February vs. January (percent)*					February 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				-5	1				-20				22	20	
General Revenue/Sales	28	34	38	-10	2	35	14	52	-17	53	20	27	26	25	
Number of Employees	20	65	16	4	6	27	27	46	-19	42	42	16	26	25	
Employee Hours Worked	20	52	28	-9	-4	20	38	42	-22	38	46	16	22	18	
Part-Time/Temporary Employment	9	78	14	-5	-1	14	60	26	-13	19	69	13	6	7	
Wages and Benefits	27	66	7	20	24	51	37	12	38	48	43	9	40	41	
Inventory Levels	18	56	26	-8	-7	17	39	44	-27	22	61	17	5	-2	
Credit Conditions/Access to Credit	7	87	6	1	1	9	84	7	1	6	89	5	1	1	
Capital Expenditures	10	77	13	-4	-2	20	60	20	0	25	62	14	11	8	
Input Prices	41	57	2	38	32	68	29	4	64	53	44	4	49	49	
Selling Prices	23	63	13	10	12	47	35	19	28	40	44	16	23	18	

*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 February survey was open for a five-day period from February 17-22, 2021 and included 82 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes

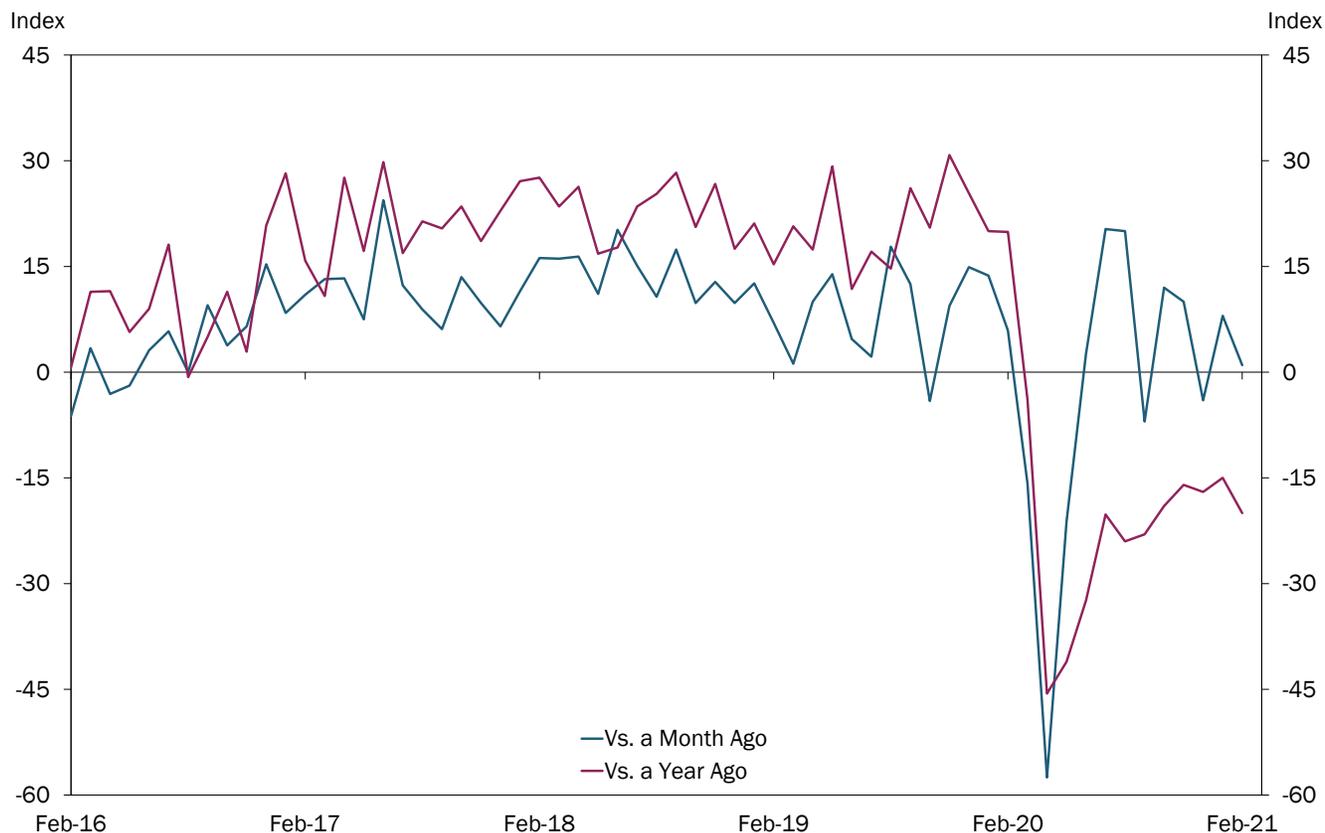


Chart 2. Special Question: If your firm is facing worker shortages, what are the key reasons for the short supply of workers? (check all that apply)

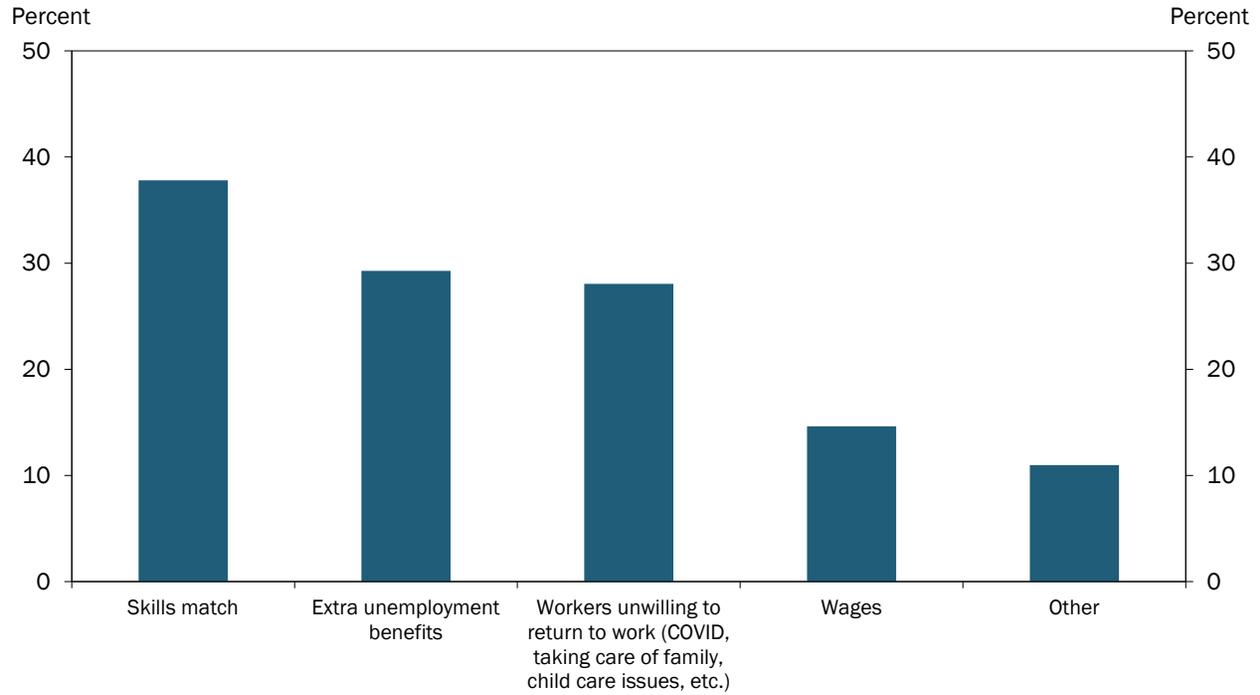


Chart 3. Special Question: Has your firm been affected by rising material prices and lack of availability/delivery time?

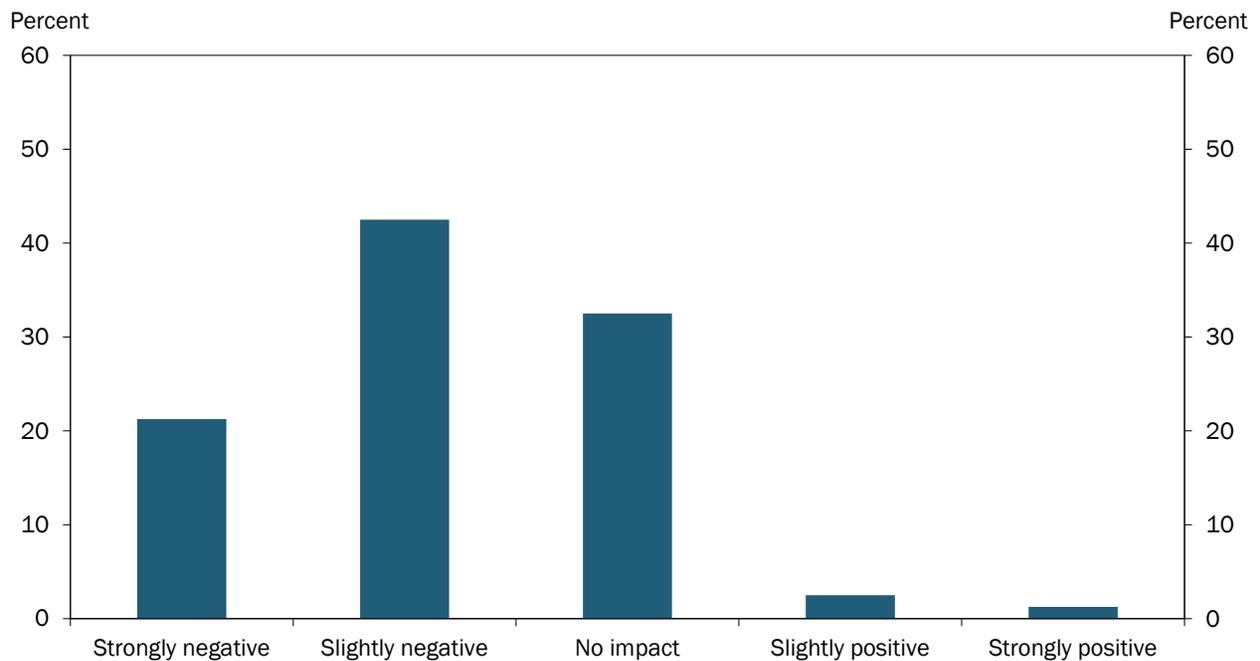


Table 2
Historical Services Survey Indexes

	Feb'20	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Sep'20	Oct'20	Nov'20	Dec'20	Jan'21	Feb'21
Versus a Month Ago (seasonally adjusted)													
Composite Index	6	-16	-58	-21	3	20	20	-7	12	10	-4	8	1
General Revenue/Sales	7	-17	-81	-21	12	37	37	-18	17	17	-13	10	2
Number of Employees	6	-15	-42	-19	2	12	10	9	7	6	8	15	6
Employee Hours Worked	18	-19	-69	-31	2	15	20	6	11	0	-4	3	-4
Part-Time/Temporary Employment	12	-24	-37	-25	-10	1	5	0	3	0	-1	1	-1
Wages and Benefits	34	1	-22	-6	10	16	30	19	18	9	14	23	24
Inventory Levels	3	-14	-22	-25	-20	-9	-9	-3	8	-4	0	-10	-7
Credit Conditions/Access to Credit	-1	-2	-4	-4	-7	-3	-4	1	2	-1	3	0	1
Capital Expenditures	8	-12	-33	-25	-13	3	17	10	3	4	1	13	-2
Input Prices	22	17	-3	13	39	30	37	29	34	25	32	46	32
Selling Prices	20	-4	-34	-15	9	13	16	15	25	11	17	22	12
Versus a Year Ago (not seasonally adjusted)													
Composite Index	20	-4	-46	-41	-32	-20	-24	-23	-19	-16	-17	-15	-20
General revenue/sales	28	-4	-58	-53	-40	-13	-24	-21	-16	-11	-16	-14	-17
Number of employees	17	-7	-42	-28	-16	-31	-22	-18	-29	-25	-18	-17	-19
Employee hours worked	23	-3	-55	-44	-30	-29	-22	-19	-13	-20	-9	-12	-22
Part-time/temporary employment	11	-10	-25	-26	-18	-20	-14	-10	-8	-13	-5	-9	-13
Wages and benefits	65	31	12	8	30	31	31	41	41	25	46	31	38
Inventory levels	4	1	-20	-31	-38	-22	-26	-33	-10	-16	-17	-13	-27
Credit conditions/access to credit	-3	0	-3	-10	-8	-12	-12	-1	0	1	0	6	1
Capital expenditures	10	-14	-29	-31	-22	-10	8	-7	2	0	0	5	0
Input prices	55	41	14	22	46	38	37	49	47	41	49	55	64
Selling prices	37	22	-19	1	14	20	22	33	24	41	37	33	28
Expected in Six Months (seasonally adjusted)													
Composite Index	23	-30	-28	-2	9	-2	11	19	7	13	16	28	20
General revenue/sales	30	-34	-36	-1	14	1	17	30	14	23	27	31	25
Number of employees	17	-31	-23	0	9	-4	10	10	0	2	15	31	25
Employee hours worked	15	-32	-26	-9	12	3	12	3	0	6	14	26	18
Part-time/temporary employment	15	-15	-5	5	11	-1	-4	-6	-6	-4	2	3	7
Wages and benefits	51	-10	6	20	29	32	27	32	21	20	33	38	41
Inventory levels	14	-18	-13	-9	-5	-6	-2	4	-2	6	-9	14	-2
Credit conditions/access to credit	0	-14	-6	1	1	-4	-5	4	4	-1	5	4	1
Capital expenditures	1	-33	-30	-21	-7	-10	9	4	-4	10	12	9	8
Input prices	46	7	0	23	45	32	33	38	44	31	48	46	49
Selling prices	23	-12	-16	10	18	17	24	13	27	22	33	30	18