



NEWS RELEASE

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Tenth District Services Activity Continued to Expand at High Levels
Federal Reserve Bank of Kansas City Releases May Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the May 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 continued to expand at high levels, and expectations for future activity increased.

“Regional services activity continued to grow in May,” said Wilkerson. “Input and selling prices posted record highs again this month. Many firms reported raising wages to attract more job applicants. While most firms indicated they expect supply chain issues to persist, overall expectations for business activity have continued to expand.”

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/surveys/services-survey/.

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 continued to expand at high levels, and expectations for future activity increased (Chart 1 & Table 1). Indexes for input prices and selling prices set survey record highs again in May, with more firms indicating price increases from a month ago and a year ago (highest postings since survey inception in 2014). Additionally, firms expected further increases to input and selling price over the next six months.

Business Activity Continued to Expand

The month-over-month services composite index was 18 in May, slightly lower than 20 in April and 22 in March (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Month-over-month indexes were mostly positive in May, indicating expansion. The general revenue and sales index rose, driven by more wholesale, retail, and restaurant activity while auto activity declined slightly. The capital expenditures index increased again in May to the highest rate since late 2019. On the other hand, the inventory index vs. a month ago edged lower. Year-over-year indexes expanded further, now compared to the depths of the pandemic last year, and the year-over-year composite index climbed from 22 to 28. Expectations for future services activity increased to the highest level since late 2019, and the future composite index rose from 26 to 29.

Special Questions

This month contacts were asked special questions about the impacts of rising material prices and lack of availability/delivery time in addition to questions about firms' expectations for wages. Over 62% of firms indicated rising material prices and delivery time delays have negatively affected their firm while 12% of firms have benefitted from these changes (Chart 2). Moving forward, 29% of firms expected rising materials prices and lack of availability/delivery time to persist 3-6 months, 39% reported 6-12 months, and 26% indicated more than a year. Only 6% of firms anticipated these rising materials prices and supply chain issues would be resolved within the next 3 months. Regarding wages for the remainder of 2021, 19% of firms indicated they expected to raise wages up to 2%, 27% of firms expected to raise wages 2-4%, and 14% of firms expected to raise wages 4-6% (Chart 3). Around 28% of firms expected wage increases of 6% or more, and 11% of firms planned to hold wages steady. Around 70% of firms indicated hiring plans have been restrained because they "cannot find workers with required skills."

Selected Services Comments

“We finally started to see an uptick in customer visits. We have to discount heavier than in the past, but it is bringing people in the store. Sales crept up in April and are looking positive so far for May.”

“Never have we had such shortages in supply.”

“Construction material prices are killing real estate development.”

“Building material inflation has had a positive impact on our business.”

“The buying frenzy remains unabated in residential real estate. We have now reached a point of auction mentality where it is more important to win the bid than purchase at a sustainable price. At some time there comes a tipping point where a market correction is appropriate and long overdue.”

“We are seeing sustained 8-12% cost increases in our supply chain primarily driven by raw materials, packaging, labor cost increases at our suppliers which need to be passed along to us, and weak U.S. dollar increasing our import prices. On top of that our in-bound and out-bound freight costs are up 50-150% YOY. We have just started to permanently raise our prices of finished goods to our customers and consumers.”

“Same supply chain and cost increase challenges experienced by most in the retail space. Fortunately, we have been able to raise prices to maintain [profit] margins.”

“It is hard finding workers. We have two stores closed on Sundays and Mondays due to staffing.”

“We are losing employees to other firms, we have to offer higher wages to retain employees.”

“The lack of qualified applicants for our retail storefronts, restaurants, and CDL drivers is very concerning and not sustainable. The situation is placing significant pressure on our current employees that want to work and is not sustainable.”

“The lack of workers is killing our sales. There needs to be a strong incentive to go back to work. I have jobs available at all levels and I am willing to train.”

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

Plant Level Indicators	May vs. April (percent)*					May 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 ^{^^}	
Composite Index				22	18				28				29	29	
General Revenue/Sales	50	31	19	31	31	74	5	22	52	63	17	20	42	41	
Number of Employees	33	52	15	18	10	37	30	33	3	46	32	22	24	26	
Employee Hours Worked	28	60	11	17	13	41	37	22	20	41	42	17	24	23	
Part-Time/Temporary Employment	15	74	11	3	1	21	61	18	2	24	63	13	12	13	
Wages and Benefits	39	52	9	30	31	69	18	13	57	60	30	10	50	53	
Inventory Levels	27	52	21	6	-1	35	36	28	7	26	51	24	2	2	
Credit Conditions/Access to Credit	8	87	5	4	4	15	79	6	9	7	89	4	4	4	
Capital Expenditures	28	70	2	25	23	36	57	7	29	30	62	8	22	22	
Input Prices	66	31	3	62	63	78	20	2	76	69	28	3	66	66	
Selling Prices	43	53	3	40	37	66	27	7	59	59	35	6	53	58	

*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 May survey was open for a five-day period from May 19-24, 2021 and included 88 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes

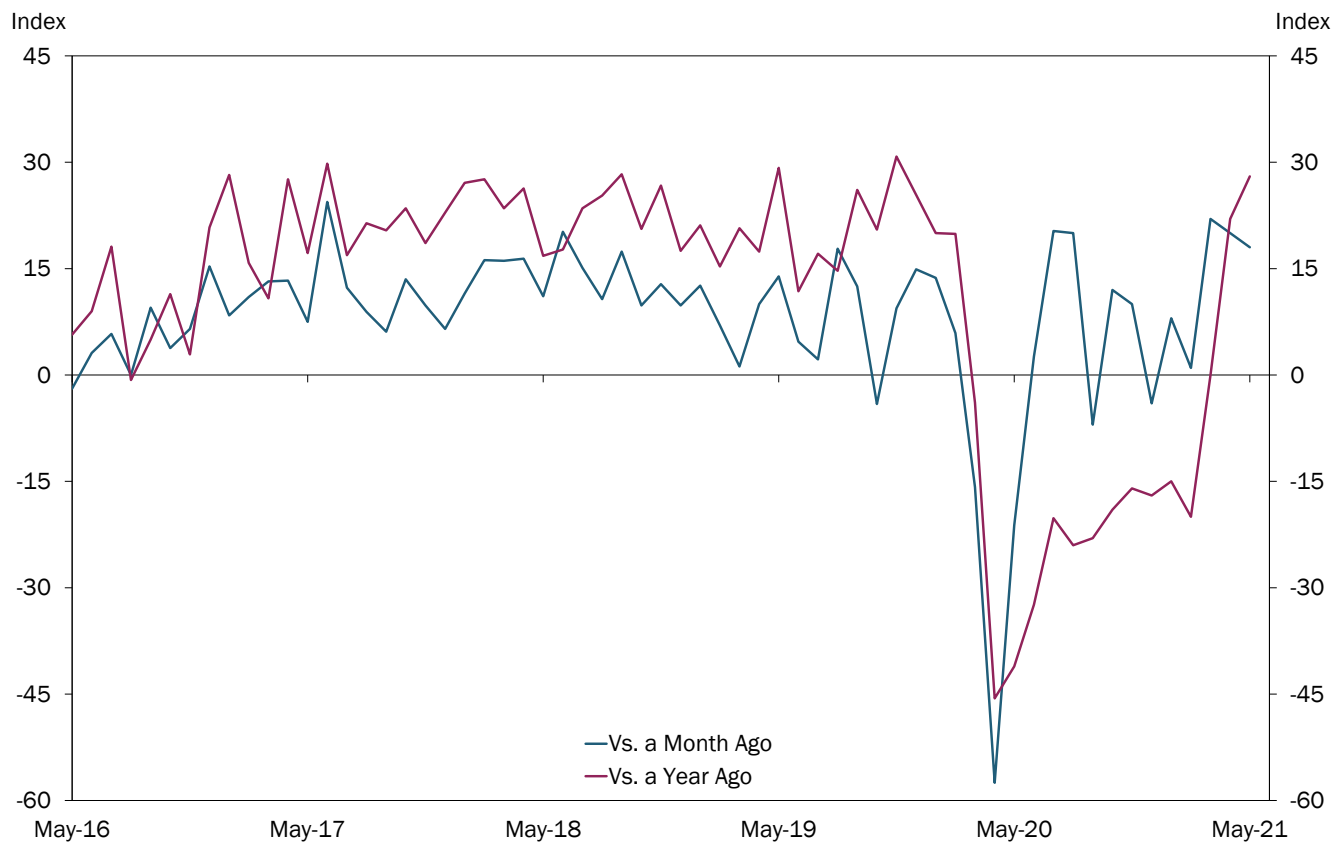


Chart 2. Special Question: Has your firm been affected by rising material prices and lack of availability/delivery time?

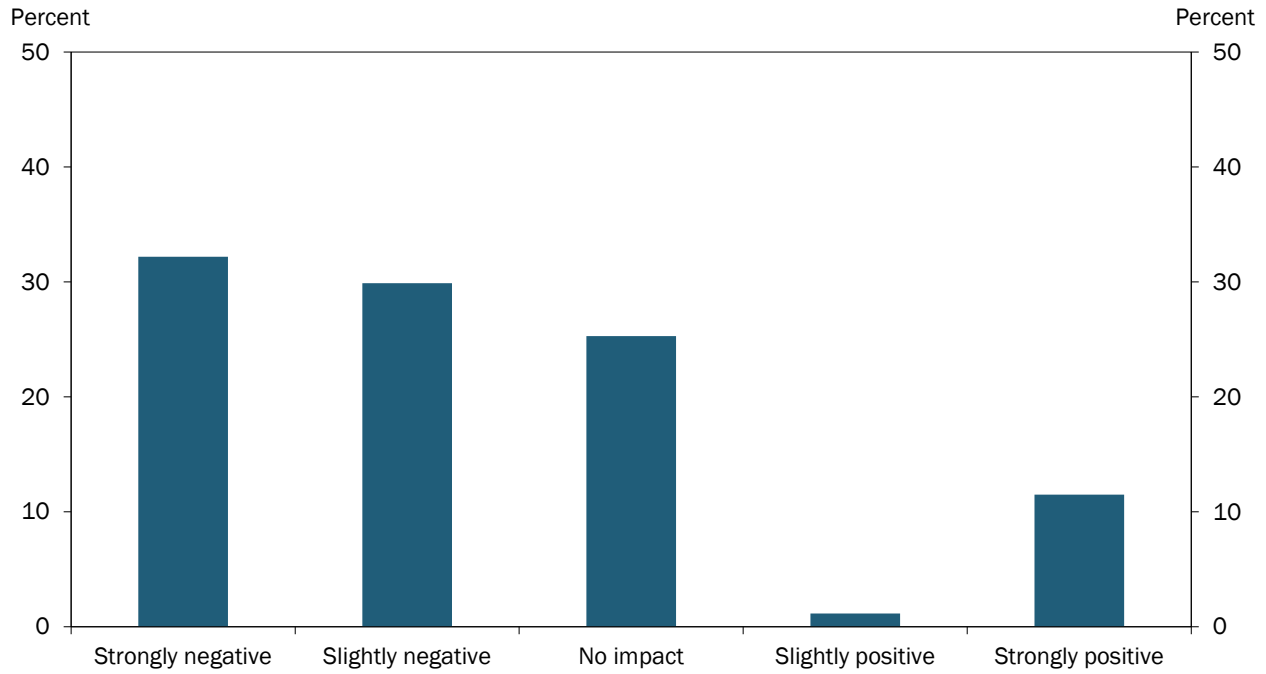


Chart 3. Special Question: What percentage wage gains does your firm expect for the remainder of 2021?

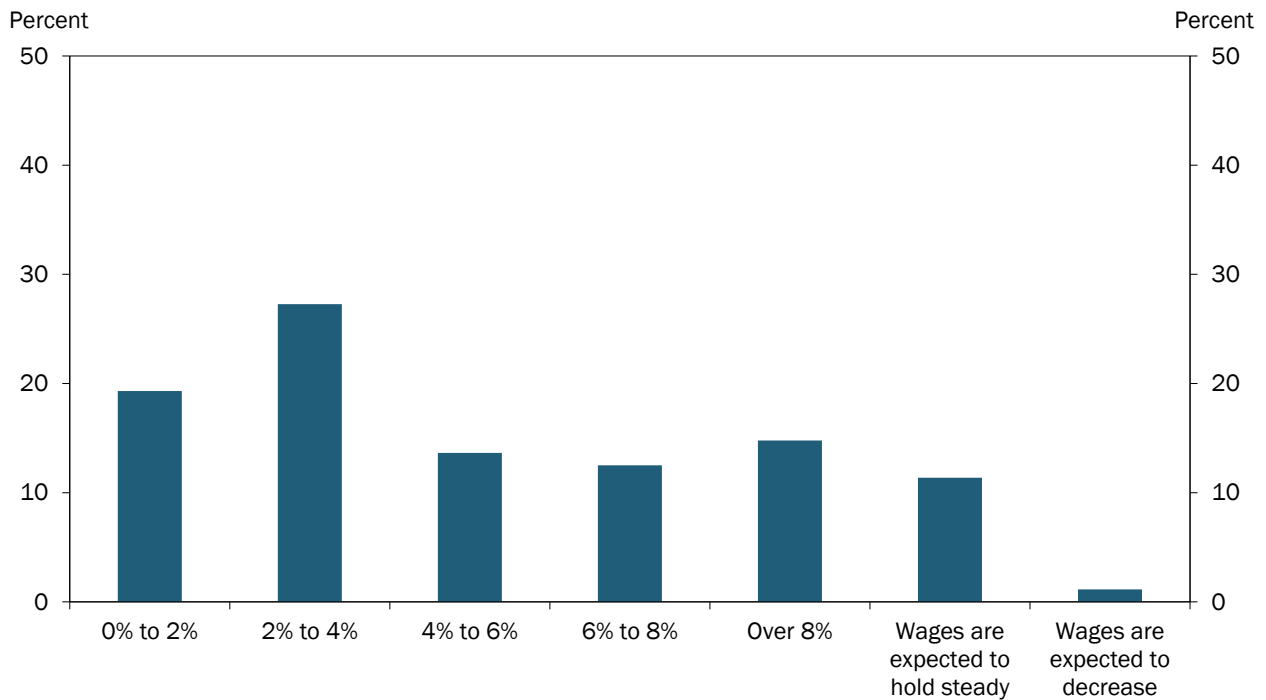


Table 2
Historical Services Survey Indexes

	May'20	Jun'20	Jul'20	Aug'20	Sep'20	Oct'20	Nov'20	Dec'20	Jan'21	Feb'21	Mar'21	Apr'21	May'21
Versus a Month Ago (seasonally adjusted)													
Composite Index	-21	3	20	20	-7	12	10	-4	8	1	22	20	18
General Revenue/Sales	-21	12	37	37	-18	17	17	-13	10	2	33	30	31
Number of Employees	-19	2	12	10	9	7	6	8	15	6	20	15	10
Employee Hours Worked	-31	2	15	20	6	11	0	-4	3	-4	13	26	13
Part-Time/Temporary Employment	-25	-10	1	5	0	3	0	-1	1	-1	3	10	1
Wages and Benefits	-6	10	16	30	19	18	9	14	23	24	26	46	31
Inventory Levels	-25	-20	-9	-9	-3	8	-4	0	-10	-7	-4	1	-1
Credit Conditions/Access to Credit	-4	-7	-3	-4	1	2	-1	3	0	1	7	1	4
Capital Expenditures	-25	-13	3	17	10	3	4	1	13	-2	11	14	23
Input Prices	13	39	30	37	29	34	25	32	46	32	55	53	63
Selling Prices	-15	9	13	16	15	25	11	17	22	12	21	34	37
Versus a Year Ago (not seasonally adjusted)													
Composite Index	-41	-32	-20	-24	-23	-19	-16	-17	-15	-20	0	22	28
General revenue/sales	-53	-40	-13	-24	-21	-16	-11	-16	-14	-17	8	42	52
Number of employees	-28	-16	-31	-22	-18	-29	-25	-18	-17	-19	-5	6	3
Employee hours worked	-44	-30	-29	-22	-19	-13	-20	-9	-12	-22	-1	35	20
Part-time/temporary employment	-26	-18	-20	-14	-10	-8	-13	-5	-9	-13	-5	11	2
Wages and benefits	8	30	31	31	41	41	25	46	31	38	53	67	57
Inventory levels	-31	-38	-22	-26	-33	-10	-16	-17	-13	-27	-11	-5	7
Credit conditions/access to credit	-10	-8	-12	-12	-1	0	1	0	6	1	10	10	9
Capital expenditures	-31	-22	-10	8	-7	2	0	0	5	0	6	16	29
Input prices	22	46	38	37	49	47	41	49	55	64	69	69	76
Selling prices	1	14	20	22	33	24	41	37	33	28	47	53	59
Expected in Six Months (seasonally adjusted)													
Composite Index	-2	9	-2	11	19	7	13	16	28	20	26	26	29
General revenue/sales	-1	14	1	17	30	14	23	27	31	25	37	40	41
Number of employees	0	9	-4	10	10	0	2	15	31	25	18	19	26
Employee hours worked	-9	12	3	12	3	0	6	14	26	18	10	30	23
Part-time/temporary employment	5	11	-1	-4	-6	-6	-4	2	3	7	0	12	13
Wages and benefits	20	29	32	27	32	21	20	33	38	41	38	53	53
Inventory levels	-9	-5	-6	-2	4	-2	6	-9	14	-2	8	-1	2
Credit conditions/access to credit	1	1	-4	-5	4	4	-1	5	4	1	3	3	4
Capital expenditures	-21	-7	-10	9	4	-4	10	12	9	8	7	18	22
Input prices	23	45	32	33	38	44	31	48	46	49	63	58	66
Selling prices	10	18	17	24	13	27	22	33	30	18	29	46	58