



NEWS RELEASE

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Tenth District Services Activity Grew at a Slower Pace
Federal Reserve Bank of Kansas City Releases June Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the June 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 grew at a slower pace in June, while future activity was expected to increase further over the next six months.

“Regional services activity growth continued in June, but at a slower rate than in recent months,” said Wilkerson. “Input and selling prices have continued to rise while employment growth has slowed, but expectations for future activity have also increased.”

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 grew at a slower pace in June, while future activity was expected to increase further over the next six months (Chart 1 & Table 1). Indexes for input prices and selling prices continued to set survey record highs in June, with more firms indicating price increases from a month ago and a year ago (highest postings since survey inception in 2014). Additionally, firms expected input and selling prices to rise over the next six months.

Business Activity Grew at a Slower Pace

The month-over-month services composite index was 8 in June, moderately lower than 18 in May, and 20 in April (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 June, indicating some expansion. The general revenue and sales index growth eased, driven by less real estate, auto, and transportation activity, while retail and tourism activity picked up. The index for wages and benefits rose at a faster rate in June while inventory levels declined from a month ago. Year-over-year indexes remained solid, and the year-over-year composite index changed from 28 to 27. Expectations for future services activity rose to the highest level since early 2018, with the future composite index jumping from 29 to 36.

Special Questions

This month contacts were asked special questions about capital spending. Nearly 42% of firms indicated capital spending plans for 2021 are higher than pre-COVID (2019) levels, and another 32% indicated 2021 capital spending levels are similar to 2019 (Chart 2). Still, a quarter of contacts reported capital spending plans for 2021 were lower than pre-COVID levels. Businesses with capital spending plans reported stronger demand as a primary factor supporting their business investment for the remainder of 2021. On the other hand, many firms noted labor shortages and the lack of materials inventory as the primary factors restraining business investment and capital spending for the rest of 2021. Because of labor shortages, 27% of businesses reported investing or plans to invest in labor-saving automation strategies at a faster pace than in the past (Chart 3). Another 21% of contacts planned to invest in labor-saving automation strategies similar to the past, and 6% were investing at a slower pace than in the past. However, 47% of contacts reported they have not invested in labor-saving technology.

Selected Services Comments

“Technicians are just hard to find.”

“Hiring has been tough, but we finally found a handful of good people who want to work”

“Because we are exclusively in the service industry, we have streamlined the utilization of virtual platforms that allow us to work remotely.”

“The supply chain is still stressed. In bound service levels on freight dropped from 94% in the last two weeks, to 90%. Freight rates on in bound are off the charts. Price increases all across the board.”

“Many suppliers are doing 5% mid-year price increases. Every employer is looking for employees in a decreasing pool of available people.”

“The work from home divide is getting bigger. Most staff would like to work from home several (if not all) days a week. Most managers want them in the office working. We are struggling in all markets to find and pay people.

“Labor is a major issue right now. We are burning out our good employees and our current pace is not sustainable. Additionally, just about everything we sell has increased in price very quickly. We have been successful thus far in passing our increased labor and product costs along to consumers.”

“Capital spending is focused on increasing productivity and reducing head count. Also locking in supplier pricing before they raise prices.”

“There is a lot of pent-up demand for travel. People are filling the streets and national forests etc. Many people are now able to work from home or on the road so the traditional seasonal factors are somewhat different.”

“If prices of construction settle, we will do some remodeling and adding a nicer patio outside, but at the costs today of construction material I was advised by the architect and contractor to wait.”

“Our capital expenditure is mainly to keep up the facility and to keep up with technology.”

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

Plant Level Indicators	June vs. May (percent)*					June vs. Year Ago (percent)*					Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}
Composite Index				18	8				27					28	36
General Revenue/Sales	47	34	19	28	17	70	8	22	48	62	15	23	38	46	
Number of Employees	36	41	23	14	3	39	25	36	3	46	33	21	25	31	
Employee Hours Worked	35	53	12	23	15	42	40	18	25	36	48	16	19	31	
Part-Time/Temporary Employment	21	73	7	14	10	28	62	10	18	18	66	15	3	6	
Wages and Benefits	51	46	3	49	43	73	21	7	66	61	37	3	58	63	
Inventory Levels	21	56	23	-1	-9	33	43	23	10	29	51	20	9	16	
Credit Conditions/Access to Credit	7	89	4	3	3	8	86	5	3	5	90	4	1	1	
Capital Expenditures	23	68	9	14	13	36	44	21	15	31	60	10	21	22	
Input Prices	74	24	3	71	70	87	11	1	86	75	18	7	68	73	
Selling Prices	45	52	3	42	41	69	26	4	65	61	32	7	54	56	

*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 June survey was open for a five-day period from June 16-21, 2021 and included 74 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 do your firm's 2021 capital expenditure plans compare to pre-COVID levels (2019)?

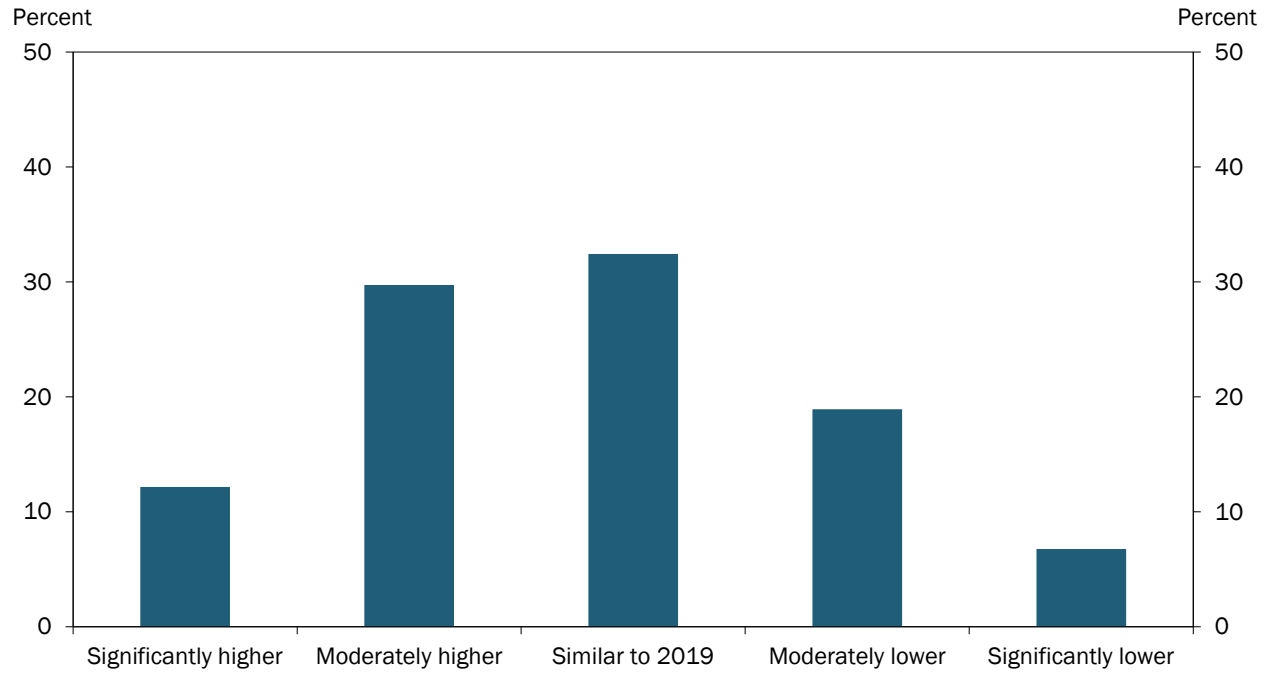


Chart 3. Special Question: Because of labor shortages, has your firm invested or plan to invest in labor-saving automation strategies?

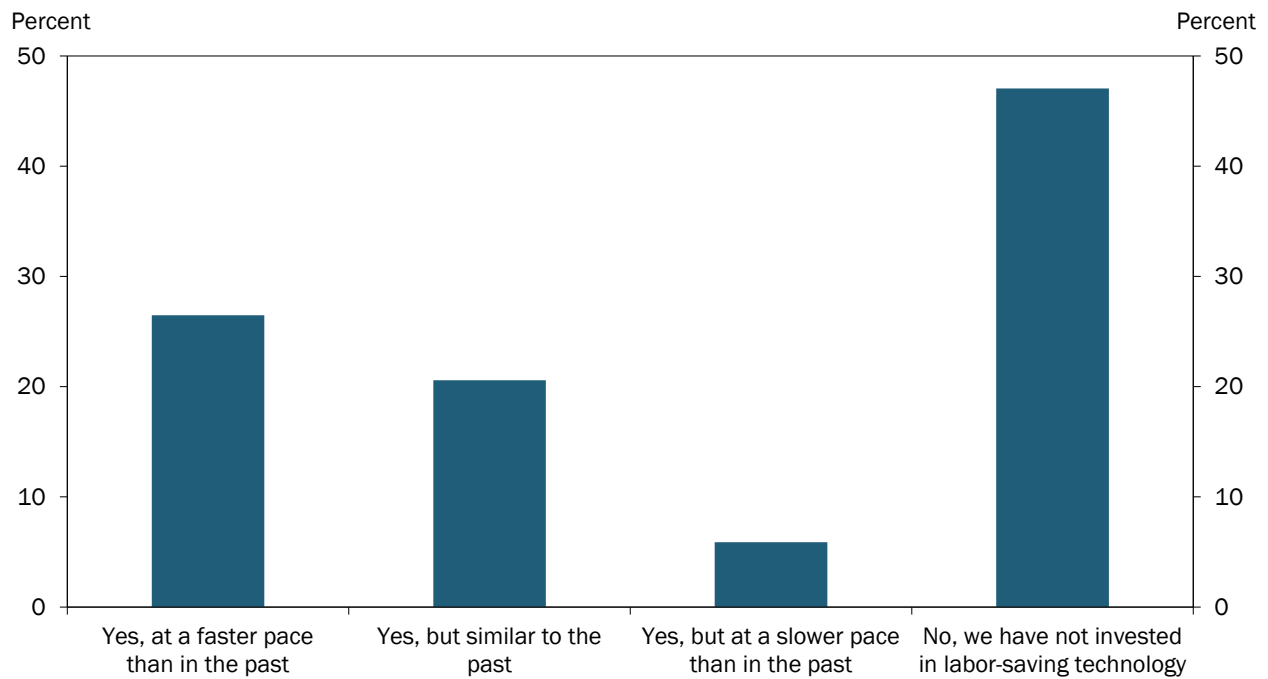


Table 2
Historical Services Survey Indexes

	Jun'20	Jul'20	Aug'20	Sep'20	Oct'20	Nov'20	Dec'20	Jan'21	Feb'21	Mar'21	Apr'21	May'21	Jun'21
Versus a Month Ago (seasonally adjusted)													
Composite Index	3	20	20	-7	12	10	-4	8	1	22	20	18	8
General Revenue/Sales	12	37	37	-18	17	17	-13	10	2	33	30	31	17
Number of Employees	2	12	10	9	7	6	8	15	6	20	15	10	3
Employee Hours Worked	2	15	20	6	11	0	-4	3	-4	13	26	13	15
Part-Time/Temporary Employment	-10	1	5	0	3	0	-1	1	-1	3	10	1	10
Wages and Benefits	10	16	30	19	18	9	14	23	24	26	46	31	43
Inventory Levels	-20	-9	-9	-3	8	-4	0	-10	-7	-4	1	-1	-9
Credit Conditions/Access to Credit	-7	-3	-4	1	2	-1	3	0	1	7	1	4	3
Capital Expenditures	-13	3	17	10	3	4	1	13	-2	11	14	23	13
Input Prices	39	30	37	29	34	25	32	46	32	55	53	63	70
Selling Prices	9	13	16	15	25	11	17	22	12	21	34	37	41
Versus a Year Ago (not seasonally adjusted)													
Composite Index	-32	-20	-24	-23	-19	-16	-17	-15	-20	0	22	28	27
General revenue/sales	-40	-13	-24	-21	-16	-11	-16	-14	-17	8	42	52	48
Number of employees	-16	-31	-22	-18	-29	-25	-18	-17	-19	-5	6	3	3
Employee hours worked	-30	-29	-22	-19	-13	-20	-9	-12	-22	-1	35	20	25
Part-time/temporary employment	-18	-20	-14	-10	-8	-13	-5	-9	-13	-5	11	2	18
Wages and benefits	30	31	31	41	41	25	46	31	38	53	67	57	66
Inventory levels	-38	-22	-26	-33	-10	-16	-17	-13	-27	-11	-5	7	10
Credit conditions/access to credit	-8	-12	-12	-1	0	1	0	6	1	10	10	9	3
Capital expenditures	-22	-10	8	-7	2	0	0	5	0	6	16	29	15
Input prices	46	38	37	49	47	41	49	55	64	69	69	76	86
Selling prices	14	20	22	33	24	41	37	33	28	47	53	59	65
Expected in Six Months (seasonally adjusted)													
Composite Index	9	-2	11	19	7	13	16	28	20	26	26	29	36
General revenue/sales	14	1	17	30	14	23	27	31	25	37	40	41	46
Number of employees	9	-4	10	10	0	2	15	31	25	18	19	26	31
Employee hours worked	12	3	12	3	0	6	14	26	18	10	30	23	31
Part-time/temporary employment	11	-1	-4	-6	-6	-4	2	3	7	0	12	13	6
Wages and benefits	29	32	27	32	21	20	33	38	41	38	53	53	63
Inventory levels	-5	-6	-2	4	-2	6	-9	14	-2	8	-1	2	16
Credit conditions/access to credit	1	-4	-5	4	4	-1	5	4	1	3	3	4	1
Capital expenditures	-7	-10	9	4	-4	10	12	9	8	7	18	22	22
Input prices	45	32	33	38	44	31	48	46	49	63	58	66	73
Selling prices	18	17	24	13	27	22	33	30	18	29	46	58	56