



NEWS RELEASE

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Tenth District Services Activity Grew Moderately
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 the pace of Tenth District services activity grew moderately in February, and activity was expected to expand further over the next six months.

“Regional services activity increased modestly in February,” said Wilkerson. “Many firms reported higher cost increases for a number of input materials and operating costs. Around 46% of firms indicated they are able to pass through 20% or less of cost increases on to customers in the form of higher prices.”

A summary of the survey is attached. Historical data, results from past surveys and release dates for future surveys are available at www.kansascityfed.org/surveys/services-survey/.

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.

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 moderately in February, and activity was expected to expand further over the next six months (Chart 1 & Table 1). Indexes for input and selling prices increased more in February compared to a month ago. Most firms continued to expect input and selling prices to rise over the next six months.

Business Activity Grew Moderately

The month-over-month services composite index was 12 in February, lower than 15 in January, but up slightly from 11 in December (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. The increase in revenue and sales was driven by more retail, transportation, and professional and high-tech services activity. However, auto, healthcare, and restaurant activity declined. Month-over-month indexes remained positive in February, indicating expansion. In particular, the indexes for employment, wages and benefits, and capital expenditures increased at a faster pace. The inventory and access to credit indexes also edged higher. The year-over-year composite index eased modestly from 37 to 32, but capital expenditures continued to increase from year-ago levels. Expectations for services activity expanded further in February. The future composite index grew from 37 to 41, with additional increases in expectations for revenue and sales, access to credit, and capital spending.

Special Questions

This month contacts were asked special questions about business costs and how much of their costs were passed through in the form of higher prices. In February, 88% of businesses reported higher costs from wages and 66% of firms reported higher costs from non-wage benefits (Chart 2). Over a third of business contacts reported higher financing costs, though most reported no change, and around 60% of firms reported higher real estate expenses (e.g. rent, maintenance, and construction). Most firms reported higher costs of some sort. Roughly 46% of firms indicated the ability to pass through 20% or less of cost increases to customers in the form of higher prices (Chart 3). On the other hand, 24% of firms reported they could pass through 80-100% of cost increases. Several contacts noted that the pace of cost increases has made it difficult to pass through changing costs via price increases to customers.

Selected Services Comments

“We are optimistic that things will return to normal and hiring will pick up in the year ahead. At this point, as a small staffing business, we are still feeling that there is a labor supply shortage.”

“We can't find enough workers and can't get some of our workers to show up and work. We can't get enough product. Our costs keep going up.”

“Capital expenditures are down because lead times on new equipment are over 12 months.”

“Liability insurance costs associated with commercial transportation have increased considerably. We have experienced premium increases of 20% in each of the last two years, with the latest increase occurring in February. We have been moderately successful in passing these increased costs along to the consumer via freight rate increases and product margin increases.”

“Overall activity is strong... we have finally been able to hire solid candidates. Nearly all open positions have been filled.”

“Since there is a shortage of truck drivers, customers are willing to pay most anything, within reason, to make sure their freight [is delivered] safe and on time.”

“We have eaten cost increases in the past, but 20% price increases are causing us to have to raise our prices. We cannot keep bleeding [profit] margins or we will not make money.”

“The higher the wages, the higher our billings.”

“I will try to absorb as much increased costs as possible but can't absorb it all... may cut back on non-critical investments, delay replacing equipment.”

“Price changes are coming at us so fast we can't keep up. By the time we have increased our pricing to clients we are hit with another.”

“We are able to pass on price increases thus far but starting to face resistance.”

Table 1. Summary of Tenth District Services Conditions, February 2022

	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				2	12				32				39	41
General Revenue/Sales	26	40	34	-8	7	66	12	22	43	66	21	13	52	57
Number of Employees	31	53	16	15	22	43	36	21	22	46	39	15	31	31
Employee Hours Worked	29	60	10	19	31	37	52	10	27	41	52	8	33	33
Part-Time/Temporary Employment	13	81	6	7	13	15	81	4	10	19	76	4	15	14
Wages and Benefits	54	41	4	50	59	78	15	7	70	63	33	4	58	62
Inventory Levels	23	64	14	9	9	35	48	17	18	29	60	11	18	16
Credit Conditions/Access to Credit	9	88	3	6	6	12	79	9	3	11	85	5	6	6
Capital Expenditures	29	68	3	26	35	42	47	11	31	42	51	8	34	32
Input Prices	75	24	1	73	75	80	17	3	77	72	23	5	68	69
Selling Prices	57	40	3	54	63	76	15	9	67	65	29	6	59	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 February survey was open for a six-day period from February 16-22, 2022 and included 68 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes

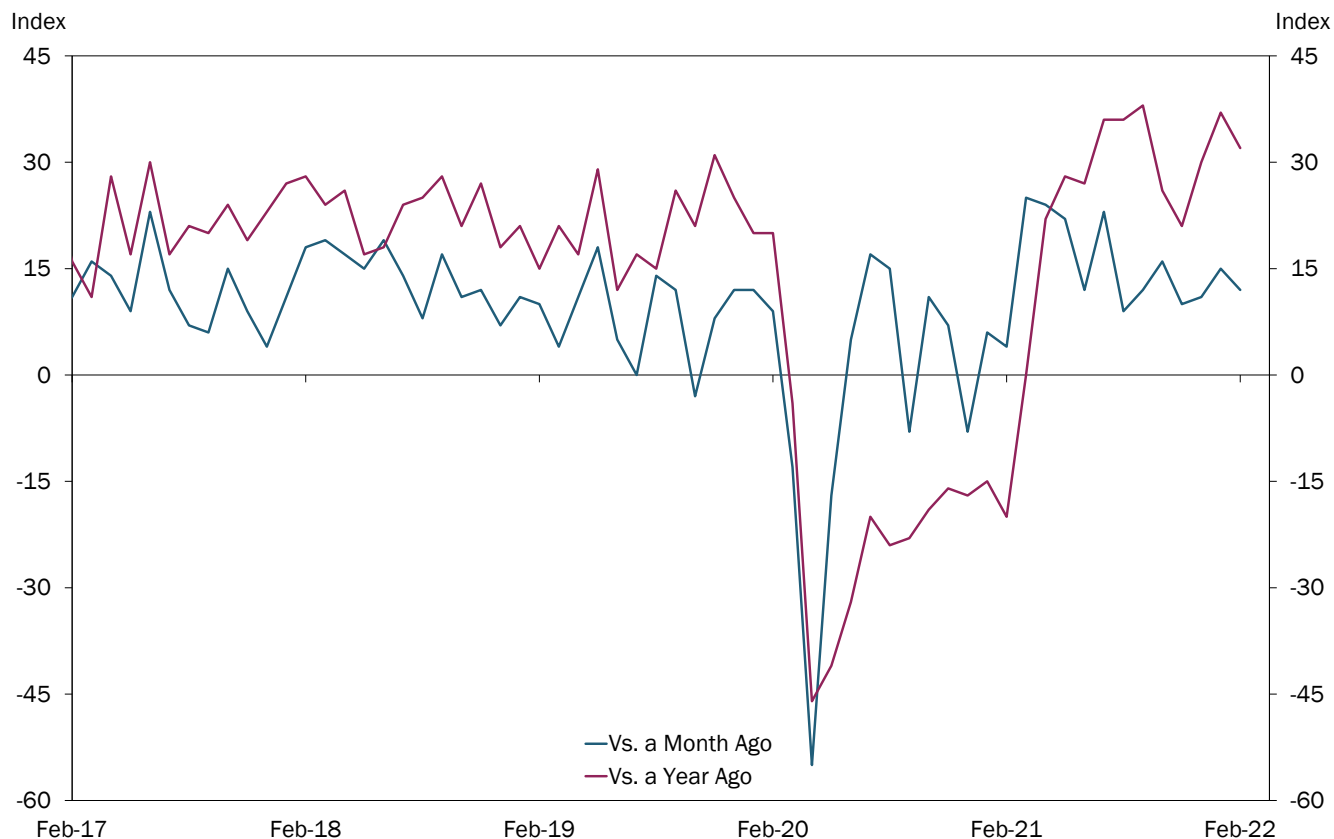


Chart 2. Special Question: How have your firm's costs changed over the past year in the following categories?

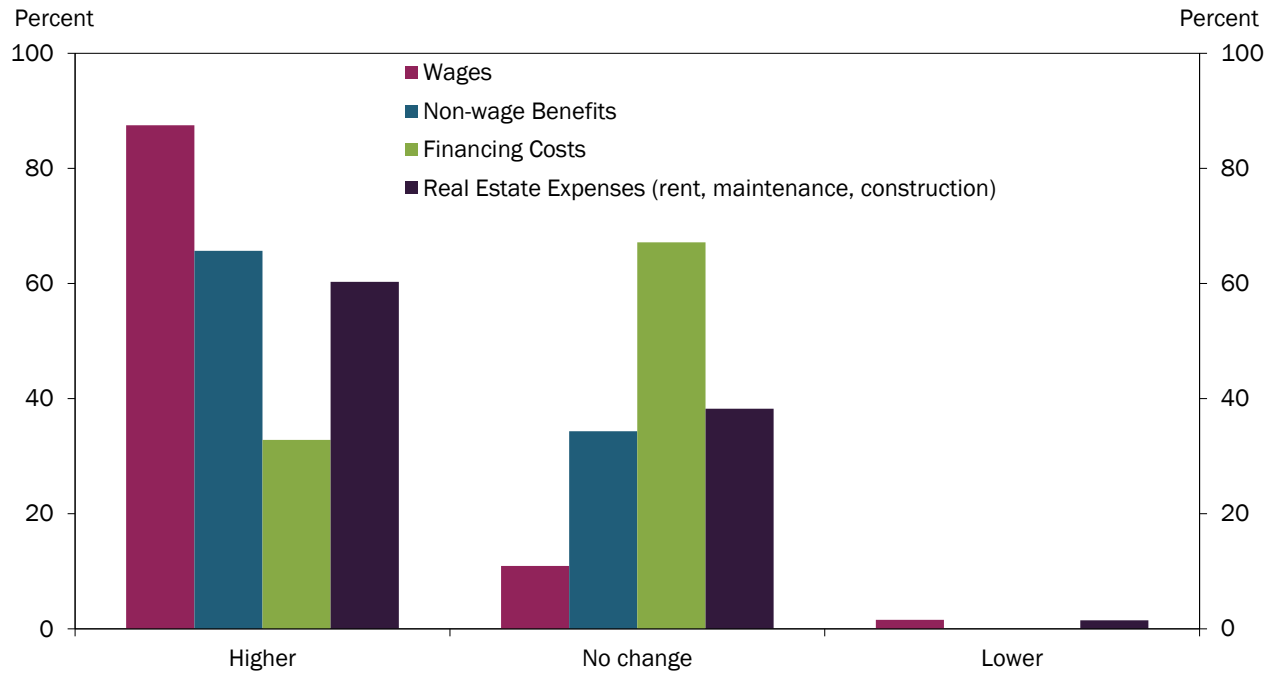


Chart 3. Special Question: If your firm is facing higher costs, what share of those increases are you able to pass through to customers in the form of higher prices?

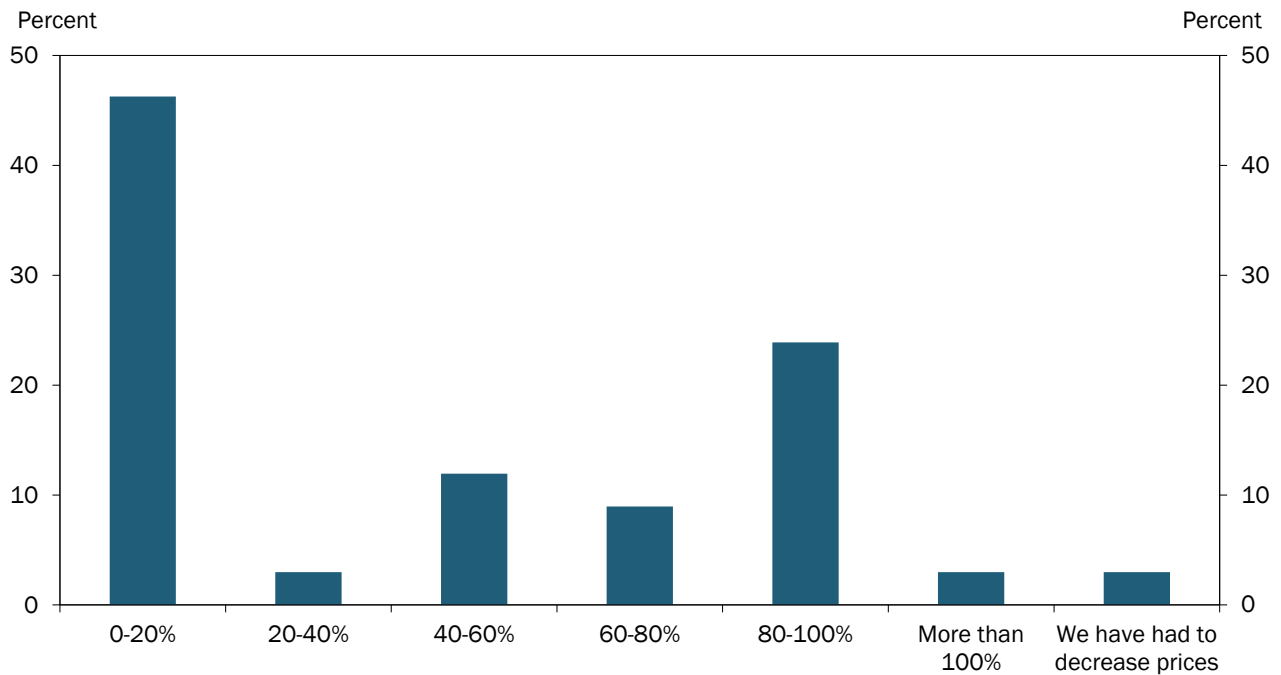


Table 2
Historical Services Survey Indexes

	Feb'21	Mar'21	Apr'21	May'21	Jun'21	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22
Versus a Month Ago (seasonally adjusted)													
Composite Index	4	25	24	22	12	23	9	12	16	10	11	15	12
General Revenue/Sales	4	37	36	33	19	37	8	19	21	13	16	18	7
Number of Employees	11	24	17	18	10	15	10	12	20	15	13	13	22
Employee Hours Worked	3	19	26	19	18	17	19	11	15	22	15	19	31
Part-Time/Temporary Employment	1	6	13	7	11	16	3	9	3	7	6	8	13
Wages and Benefits	28	31	48	37	43	37	41	39	38	51	32	44	59
Inventory Levels	-8	-3	4	2	-4	-1	8	-4	-5	-3	-6	8	9
Credit Conditions/Access to Credit	2	7	2	4	4	0	1	5	2	5	0	2	6
Capital Expenditures	5	14	19	24	19	16	19	22	23	20	18	12	35
Input Prices	39	59	56	66	67	48	58	56	68	61	78	74	75
Selling Prices	18	29	38	40	41	37	41	31	41	46	55	39	63
Versus a Year Ago (not seasonally adjusted)													
Composite Index	-20	0	22	28	27	36	36	38	26	21	30	37	32
General revenue/sales	-17	8	42	52	48	60	51	56	48	37	46	56	43
Number of employees	-19	-5	6	3	3	17	26	33	15	4	21	19	22
Employee hours worked	-22	-1	35	20	25	35	32	33	20	30	24	24	27
Part-time/temporary employment	-13	-5	11	2	18	23	16	17	6	6	11	14	10
Wages and benefits	38	53	67	57	66	68	80	80	78	76	78	82	70
Inventory levels	-27	-11	-5	7	10	4	12	-1	-13	4	4	14	18
Credit conditions/access to credit	1	10	10	9	3	8	9	9	9	9	1	3	3
Capital expenditures	0	6	16	29	15	24	20	37	39	24	29	24	31
Input prices	64	69	69	76	86	83	78	85	80	80	82	78	77
Selling prices	28	47	53	59	65	73	67	67	70	68	79	68	67
Expected in Six Months (seasonally adjusted)													
Composite Index	23	30	31	31	33	33	25	24	23	23	33	37	41
General revenue/sales	30	42	47	43	43	40	32	33	33	30	36	50	57
Number of employees	25	24	23	28	31	36	28	28	27	25	35	31	31
Employee hours worked	22	17	31	26	27	27	22	20	26	24	28	28	33
Part-time/temporary employment	6	1	11	9	6	9	7	10	4	7	9	13	14
Wages and benefits	43	46	57	56	61	60	59	57	58	67	59	77	62
Inventory levels	2	8	4	5	13	12	4	-5	-10	4	20	15	16
Credit conditions/access to credit	1	4	4	3	1	4	2	9	0	4	1	-2	6
Capital expenditures	9	14	23	27	24	25	24	26	24	19	19	30	32
Input prices	49	65	63	70	71	71	58	57	67	66	61	71	69
Selling prices	20	38	50	58	56	68	47	45	50	52	50	49	56