



NEWS RELEASE

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Tenth District Services Activity Increased to Record Levels
Federal Reserve Bank of Kansas City Releases March Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the March Services Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that the Tenth District services activity increased to record levels in March, and expectations for future activity remained solid.

“Regional services activity increased at a record pace in March,” said Wilkerson. “However, many firms continued to comment on supply chain disruptions and increased input costs as having a negative impact on profit margins.”

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 increased to record high levels and expectations for future activity remained solid (Chart 1 & Table 1). Compared to the previous month, indexes for input prices increased slightly, while selling prices took a modest dip in March. Most firms continued to expect input and selling prices to rise over the next six months.

Business Activity Increased to Record Levels

The month-over-month services composite index was 30 in March, higher than 12 in February and 15 in January (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 wholesale trade, retail trade, and restaurant activity. However, auto activity declined. Month-over-month indexes remained positive in March, indicating expansion. In particular, the indexes for employment and inventories remained solid, but indexes for wages and benefits access to credit, and capital expenditures saw a slight decline. The year-over-year composite index eased modestly from 32 to 27, but the capital expenditure index remained unchanged from year-ago levels. Expectations for services activity remained positive in March. The future composite index was mostly unchanged at 40, but future indexes for revenue and sales, access to credit, and capital spending posted slight declines. However, the future employment and wages and benefits indexes increased in March.

Special Questions

This month contacts were asked special questions on profit margins, changing prices, and the impact of the Russia/Ukraine conflict on their business. In March, 40% of firms reported raising prices much more often compared to last year, and 32% increased prices somewhat more often (Chart 2). However, 38% of firms reported a slight decrease and 14% reported a significant decrease in profit margins since the beginning of the year (Chart 3). Firms reported that the majority of impacts from the Russia/Ukraine conflict centered around supply chain disruptions and higher input costs.

Selected Services Comments

“We sell used vehicles. Almost 100% of our inventory is purchased and already in the US. Our increased cost of labor, energy costs, fuel costs and shipping are having an adverse effect in the used vehicle market.”

“Cannot raise prices in restaurants fast enough for price increases without negatively impacting customer counts. Absorbing some of the costs to minimize lost customer visits.”

“The cost of inventory and shipping is up 25 to 40 % along with wage increases. There is a limit on what a consumer will pay for our product, especially when you add in cost of energy and fuel prices. So naturally, with these increases our profit is lower.”

“The combo of higher interest rates and increased construction costs are killing us.”

“Fuel costs have hit our warehouse and delivery lines hard.”

“Freight costs and input costs are rising faster than our price increases to retailers.”

“The Russia/Ukraine conflict is just exacerbating the already disrupted supply chain and cost of the last two years of COVID panic. We are seeing multiple fuel price adjustments which is built into the food chain supply line as a general rule. The transportation cost appears to be the biggest effect of the conflict on our business at the current state of fighting...”

“To stay competitive, we are not able to raise our prices enough to cover expected margins.”

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

	March vs. February (percent)*					March 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				25	30				27				42	40	
General Revenue/Sales	43	41	16	28	37	59	12	29	29	62	25	13	49	49	
Number of Employees	35	54	12	23	26	47	31	22	25	54	37	9	46	44	
Employee Hours Worked	32	64	4	28	33	40	50	10	29	37	51	12	25	26	
Part-Time/Temporary Employment	15	82	3	12	13	21	72	7	13	13	78	9	4	6	
Wages and Benefits	49	48	3	46	56	82	12	6	76	66	28	6	60	70	
Inventory Levels	34	54	12	22	19	43	39	18	25	31	54	15	16	12	
Credit Conditions/Access to Credit	3	91	6	-3	-2	7	87	6	1	3	90	7	-4	-2	
Capital Expenditures	29	64	7	22	28	44	43	13	31	29	57	13	16	22	
Input Prices	74	25	1	72	79	82	16	1	81	70	25	4	66	70	
Selling Prices	52	46	1	51	58	75	21	4	71	62	29	9	53	63	

*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 March survey was open for a five-day period from March 16-21, 2022 and included 69 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes

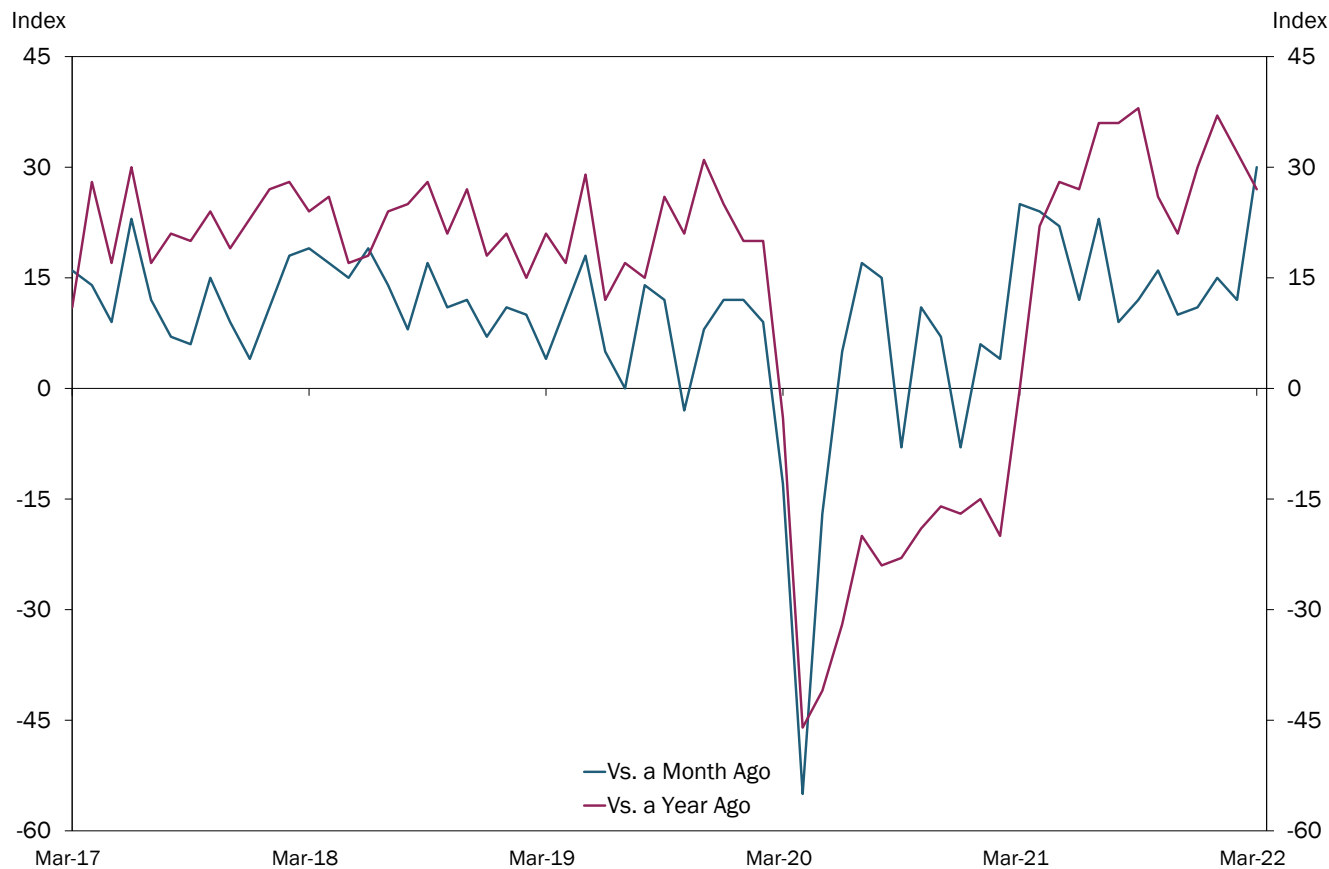


Chart 2. Special Question: How much more or less frequently is your firm changing prices compared to last year?

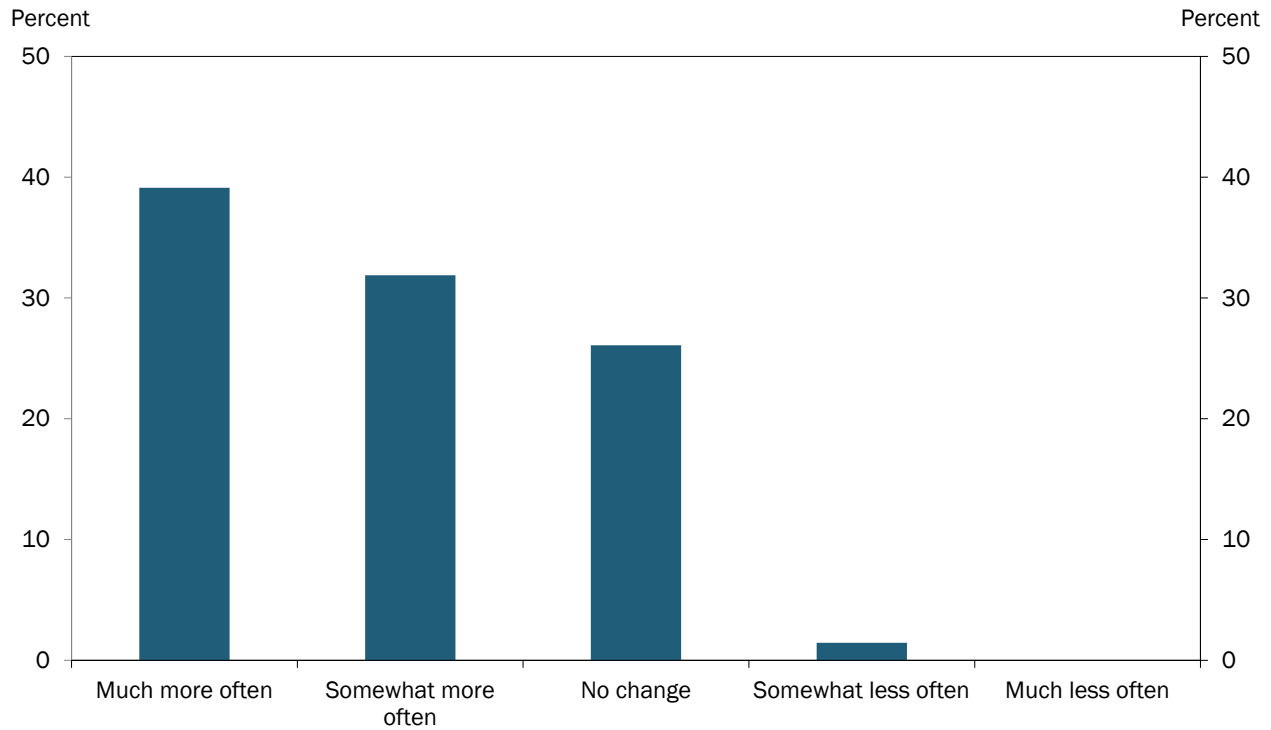


Chart 3. Special Question: Given current price pressures, how have profit margins changed for your firm since the beginning of the year?

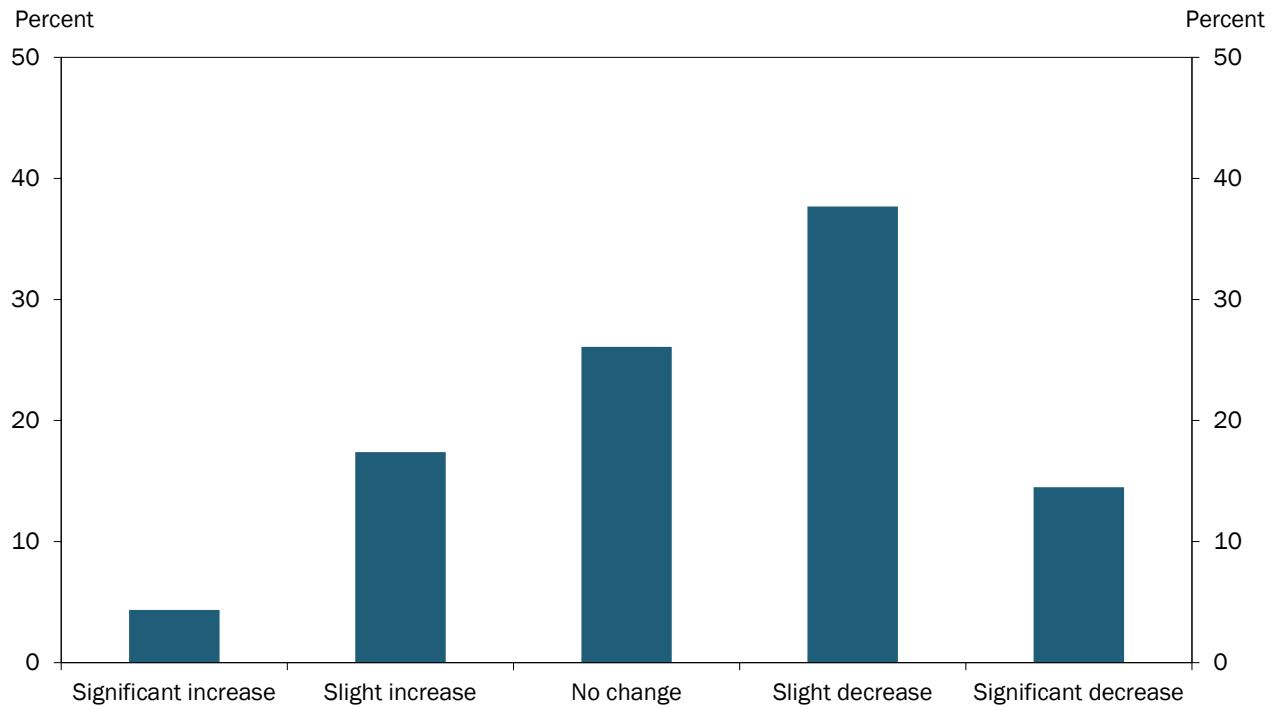


Table 2
Historical Services Survey Indexes

	Mar'21	Apr'21	May'21	Jun'21	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22	Mar'22
Versus a Month Ago (seasonally adjusted)													
Composite Index	25	24	22	12	23	9	12	16	10	11	15	12	30
General Revenue/Sales	37	36	33	19	37	8	19	21	13	16	18	7	37
Number of Employees	24	17	18	10	15	10	12	20	15	13	13	22	26
Employee Hours Worked	19	26	19	18	17	19	11	15	22	15	19	31	33
Part-Time/Temporary Employment	6	13	7	11	16	3	9	3	7	6	8	13	13
Wages and Benefits	31	48	37	43	37	41	39	38	51	32	44	59	56
Inventory Levels	-3	4	2	-4	-1	8	-4	-5	-3	-6	8	9	19
Credit Conditions/Access to Credit	7	2	4	4	0	1	5	2	5	0	2	6	-2
Capital Expenditures	14	19	24	19	16	19	22	23	20	18	12	35	28
Input Prices	59	56	66	67	48	58	56	68	61	78	74	75	79
Selling Prices	29	38	40	41	37	41	31	41	46	55	39	63	58
Versus a Year Ago (not seasonally adjusted)													
Composite Index	0	22	28	27	36	36	38	26	21	30	37	32	27
General revenue/sales	8	42	52	48	60	51	56	48	37	46	56	43	29
Number of employees	-5	6	3	3	17	26	33	15	4	21	19	22	25
Employee hours worked	-1	35	20	25	35	32	33	20	30	24	24	27	29
Part-time/temporary employment	-5	11	2	18	23	16	17	6	6	11	14	10	13
Wages and benefits	53	67	57	66	68	80	80	78	76	78	82	70	76
Inventory levels	-11	-5	7	10	4	12	-1	-13	4	4	14	18	25
Credit conditions/access to credit	10	10	9	3	8	9	9	9	9	1	3	3	1
Capital expenditures	6	16	29	15	24	20	37	39	24	29	24	31	31
Input prices	69	69	76	86	83	78	85	80	80	82	78	77	81
Selling prices	47	53	59	65	73	67	67	70	68	79	68	67	71
Expected in Six Months (seasonally adjusted)													
Composite Index	30	31	31	33	33	25	24	23	23	33	37	41	40
General revenue/sales	42	47	43	43	40	32	33	33	30	36	50	57	49
Number of employees	24	23	28	31	36	28	28	27	25	35	31	31	44
Employee hours worked	17	31	26	27	27	22	20	26	24	28	28	33	26
Part-time/temporary employment	1	11	9	6	9	7	10	4	7	9	13	14	6
Wages and benefits	46	57	56	61	60	59	57	58	67	59	77	62	70
Inventory levels	8	4	5	13	12	4	-5	-10	4	20	15	16	12
Credit conditions/access to credit	4	4	3	1	4	2	9	0	4	1	-2	6	-2
Capital expenditures	14	23	27	24	25	24	26	24	19	19	30	32	22
Input prices	65	63	70	71	71	58	57	67	66	61	71	69	70
Selling prices	38	50	58	56	68	47	45	50	52	50	49	56	63