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Tenth District Services Activity Grew at a Much Slower Pace

Federal Reserve Bank of Kansas City Releases October Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the October 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 much slower pace, while expectations for future activity remained steady.

"Overall, regional services firms saw growth in activity slow considerably in October," said Wilkerson. "Indexes fell for revenue/sales, wages and benefits, expenditures, and selling prices; however, firms still reported slight gains in employment and expectations held steady."

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 at a much slower pace October, and expectations for future activity remained steady (Chart 1 & Table 1). The monthly survey input prices index remained elevated, while the selling prices index saw a modest decline. Expectations for future prices remained high, but slightly below previous levels.

Business Activity Slowed Considerably

The month-over-month services composite index was 6 in October, down from 20 in September and from 14 in August (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventories indexes. The decrease in growth was driven by a decline in activity in professional services, auto, health services, and retail trade. Most month-over-month indexes slowed in October, with a decrease in revenue/sales, hours worked, wages and benefits, credit conditions, and capital expenditures indexes. In contrast, the inventory levels index increased somewhat. The year-over-year composite index remained solid, however, the only indexes having higher readings than last month were employment and inventories. Expectations for services activity remained steady in October, and indexes for employment saw a slight increase.

Special Questions

This month contacts were asked special questions on changes in their workforce and investments compared to pre-pandemic. In October, 72% of firms reported devoting significantly or slightly more resources to training workers in order to meet skill requirements, while 28% reported no change (Chart 2). Due to labor shortages, 28% of firms reported investing or planning to invest in labor-saving automation strategies at a faster pace than in the past. On the same question, 23% of firms invested or planned to invest similar to the past and about 45% of firms reported not investing in labor-saving technology (Chart 3).

Selected Services Comments

“Prices are increasing significantly for products, but items are becoming more readily available. Labor costs have also increased significantly, and we expect that to continue into 2023. We expect higher interest rates to cause a material slowdown in purchasing of certain goods and products.”

“It appears that the labor participation rate has declined making it harder to fill jobs. For a majority of businesses, it appears that the following needs as much attention: broken supply chain correction, immigration reform, increasing labor supply and increasing education to acquire productive skill sets.”

“We have purchased more self-checkouts because of labor shortages and higher wage costs. However, theft is becoming a bigger issue.”

“We need more automation to both offset higher wages as well as address short labor supply.”

“The impact of the pandemic is still significant. Everyone wants to do as much work from home as possible. Customers buy goods and services from home much more readily. Both customers and employees are remote, leaving buildings and parking lots empty. The impact on real estate will be significant. Of course, everyone wants a home office now, so residential real estate is up while commercial and office demand is down. We have significant surplus space, but that is not uncommon.”

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

	October vs. September (percent)*					October vs. Year Ago (percent)*				Expected in Six Months (percent)*				
Plant Level Indicators	Increase	No Change	Decrease	Diff Index^	SA Index*^	Increase	No Change	Decrease	Diff Index^	Increase	No Change	Decrease	Diff Index^	SA Index*^
Composite Index				3	6				17				11	9
General Revenue/Sales	33	31	36	-3	3	50	13	38	13	44	23	33	11	8
Number of Employees	22	59	19	3	3	41	36	23	17	30	53	17	13	11
Employee Hours Worked	19	59	22	-3	0	27	48	25	2	22	61	17	5	4
Part-Time/Temporary Employment	5	81	14	-9	-8	13	73	14	-2	11	76	13	-2	-3
Wages and Benefits	30	61	9	20	16	77	13	11	66	58	34	8	50	41
Inventory Levels	27	63	11	16	20	41	45	14	27	27	54	19	8	9
Credit Conditions/Access to Credit	3	86	11	-8	-10	6	83	11	-5	6	81	13	-6	-7
Capital Expenditures	20	69	11	9	5	38	45	17	20	23	61	16	8	4
Input Prices	60	33	6	54	51	87	10	3	84	76	16	8	68	61
Selling Prices	31	56	13	19	16	69	17	14	55	52	34	14	38	32

*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 October survey was open for a five-day period from October 19-24, 2022 and included 64 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes

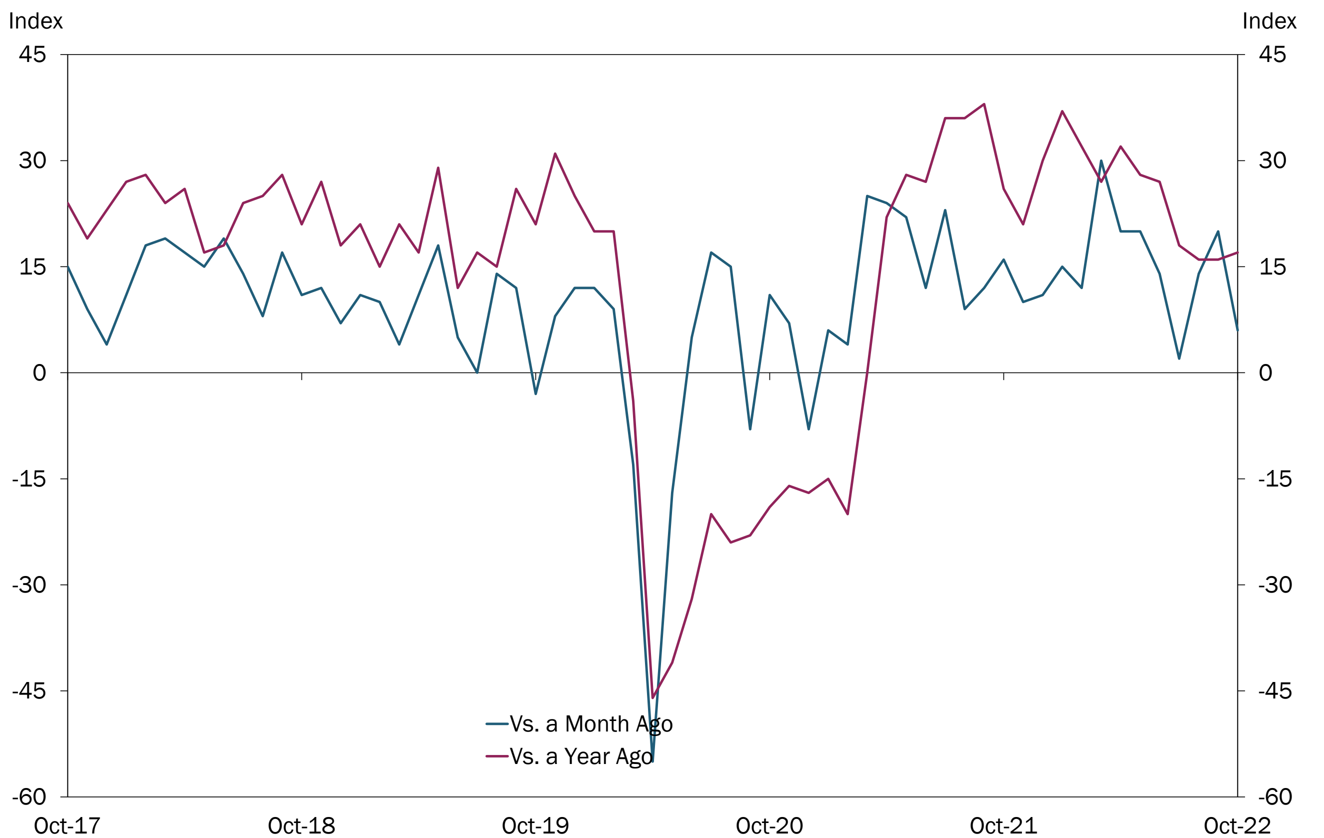

Chart 2. Special Question: Has your firm been devoting more resources (internal or external) to training workers that do not meeet skill requirements?

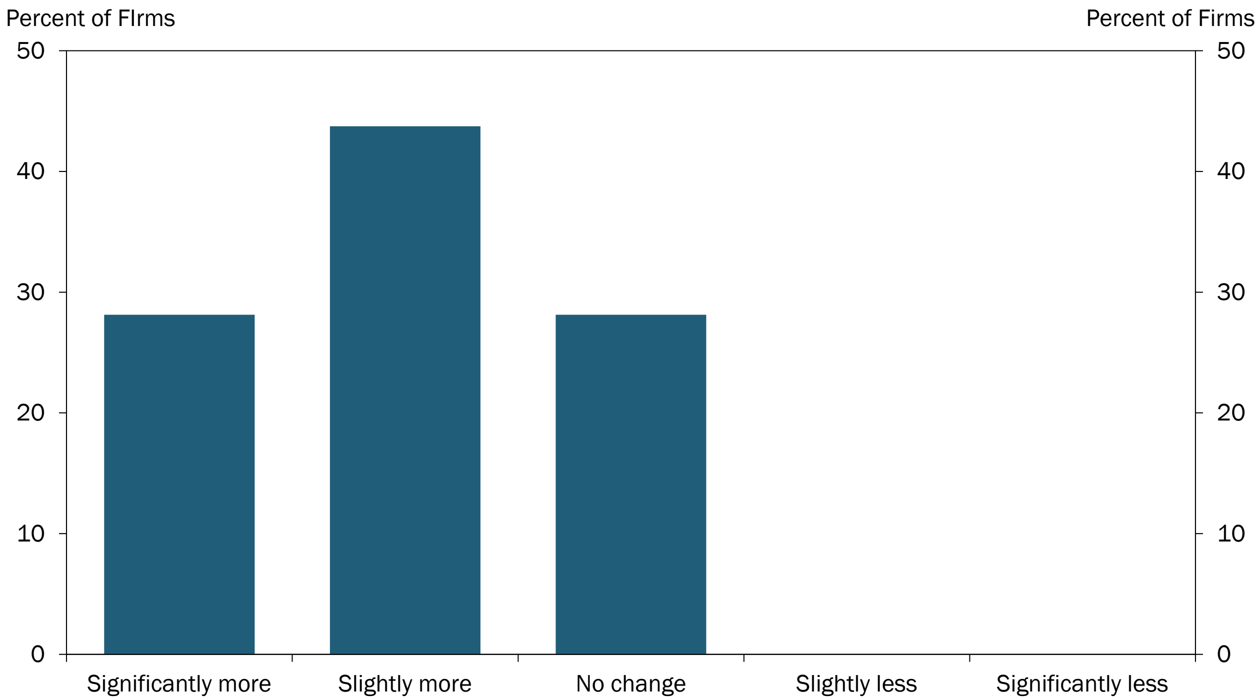

Chart 3. Special Question: Because of labor shortages, has your firm invested or plan to invest in labor-saving automation strategies?

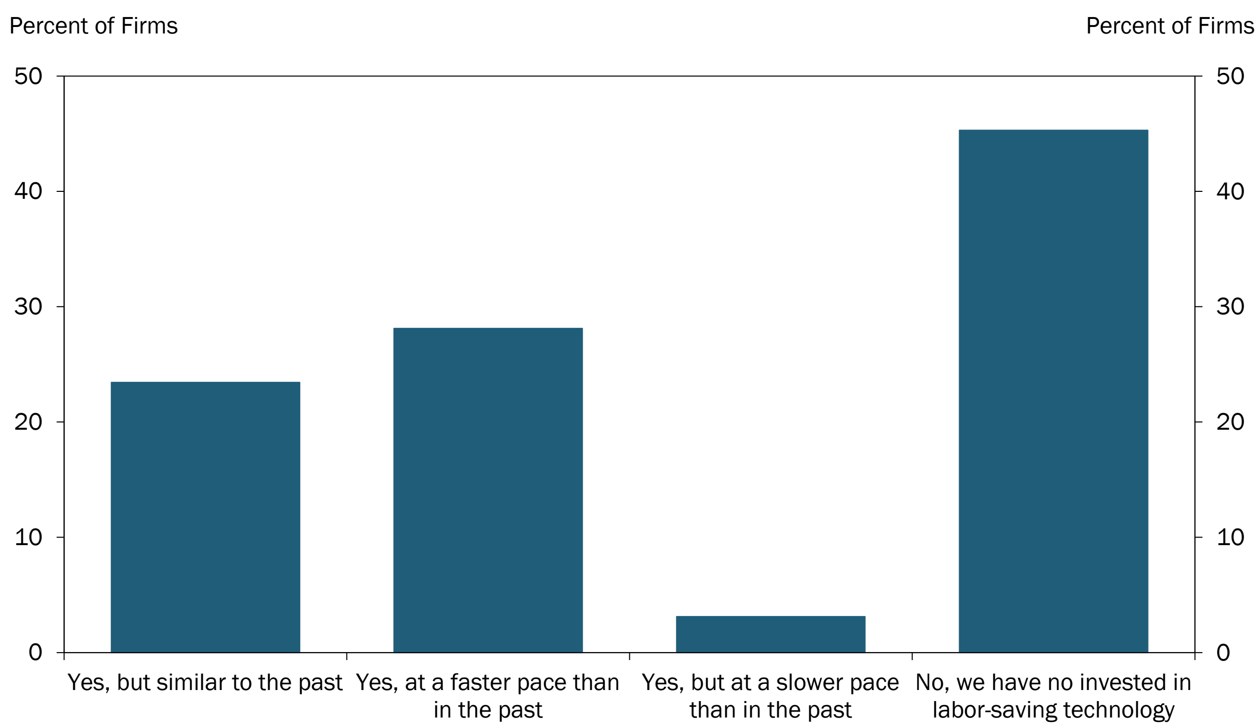

Table 2
Historical Services Survey Indexes

	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22	Mar'22	Apr'22	May'22	Jun'22	Jul'22	Aug'22	Sep'22	Oct'22
Versus a Month Ago													
(seasonally adjusted)													
Composite Index	16	10	11	15	12	30	20	20	14	2	14	20	6
General Revenue/Sales	21	13	16	18	7	37	18	26	8	0	12	26	3
Number of Employees	20	15	13	13	22	26	21	24	26	0	13	11	3
Employee Hours Worked	15	22	15	19	31	33	15	21	10	18	9	17	0
Part-Time/Temporary Employment	3	7	6	8	13	13	8	16	10	0	4	-3	-8
Wages and Benefits	38	51	32	44	59	56	48	48	37	33	33	37	16
Inventory Levels	-5	-3	-6	8	9	19	21	0	11	11	21	16	20
Credit Conditions/Access to Credit	2	5	0	2	6	-2	4	-6	-5	-6	-2	-2	-10
Capital Expenditures	23	20	18	12	35	28	21	15	31	15	13	15	5
Input Prices	68	61	78	74	75	79	74	76	63	65	52	51	51
Selling Prices	41	46	55	39	63	58	56	49	35	31	37	38	16
Versus a Year Ago													
(not seasonally adjusted)													
Composite Index	26	21	30	37	32	27	32	28	27	18	16	16	17
General revenue/sales	48	37	46	56	43	29	41	32	28	15	17	18	13
Number of employees	15	4	21	19	22	25	22	27	28	14	8	12	17
Employee hours worked	20	30	24	24	27	29	34	20	16	19	10	17	2
Part-time/temporary employment	6	6	11	14	10	13	17	17	10	11	10	4	-2
Wages and benefits	78	76	78	82	70	76	83	68	70	75	69	76	66
Inventory levels	-13	4	4	14	18	25	26	19	22	32	23	19	27
Credit conditions/access to credit	9	9	1	3	3	1	4	0	-7	-5	-1	1	-5
Capital expenditures	39	24	29	24	31	31	24	29	38	25	21	34	20
Input prices	80	80	82	78	77	81	79	86	83	81	83	88	84
Selling prices	70	68	79	68	67	71	76	76	69	64	66	72	55
Expected in Six Months													
(seasonally adjusted)													
Composite Index	23	23	33	37	41	40	42	26	16	19	10	9	9
General revenue/sales	33	30	36	50	57	49	44	33	18	24	7	9	8
Number of employees	27	25	35	31	31	44	47	26	19	14	18	7	11
Employee hours worked	26	24	28	28	33	26	34	7	10	10	2	3	4
Part-time/temporary employment	4	7	9	13	14	6	20	2	8	0	0	-11	-3
Wages and benefits	58	67	59	77	62	70	71	64	54	52	50	49	41
Inventory levels	-10	4	20	15	16	12	27	10	7	15	4	12	9
Credit conditions/access to credit	0	4	1	-2	6	-2	2	-7	-7	-4	-1	0	-7
Capital expenditures	24	19	19	30	32	22	37	21	23	14	14	21	4
Input prices	67	66	61	71	69	70	63	77	71	65	62	66	61
Selling prices	50	52	50	49	56	63	67	59	55	54	42	58	32