



# NEWS RELEASE

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**Growth in Tenth District Services Activity Declined Slightly**  
*Federal Reserve Bank of Kansas City Releases December Services Survey*

**KANSAS CITY, Mo.** – The Federal Reserve Bank of Kansas City released the December Services Survey today. According to Chad Wilkerson, senior vice president at the Federal Reserve Bank of Kansas City, the survey revealed that growth in Tenth District services activity declined slightly, while expectations for future activity slowed moderately but remained positive.

“Regional services firms reported a slight decline in activity in December,” said Wilkerson. “The employment index fell for the first time since 2020 and recorded the second lowest level in survey history.”

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/](http://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](http://www.kansascityfed.org).

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## **TENTH DISTRICT SERVICES SUMMARY**

Tenth District services activity declined slightly in December, and expectations for future activity slowed moderately but remained positive (Chart 1 & Table 1). Compared to the previous month, the input price index inched upward while the selling price index decreased slightly, reaching its lowest level since May 2020. Expectations for future input and selling price increases fell compared to previous levels.

### **Business Activity Declined Slightly**

The month-over-month services composite index was -5 in December, down from 10 in November and 6 in October (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventories indexes. The decline in growth was driven by decreased activity in restaurants, wholesale trade, transportation, and autos. Most month-over-month indexes declined and were negative in December. The monthly employment index fell from 6 to -13, the second lowest level in survey history. The year-over-year composite index decreased from 21 to 14, but the wages and benefits, inventory, and capital expenditures indexes inched slightly higher than previous levels. Expectations for services activity decreased from 12 to 4 in December, however indexes for inventory and credit conditions had slightly higher readings than last month.

### **Special Questions**

This month contacts were asked special questions about price pass through and expectation for wages and prices. In December, about 39% of firms expected wages to rise faster compared to the past 12 months, while 29% of firms expected wages to rise at a similar rate and 27% of firms expected wages to rise more slowly (Chart 2). About 25% of all firms facing higher costs (inputs and labor) were able to pass through 80 to 100% of increased costs, while 37% of firms could only pass through 0 to 20% (Chart 3).

## **Selected Services Comments**

“Inflation, meaning higher construction costs and higher interest rates, are killing commercial real estate development.”

“Single family home permits down 24% over the last 3 months. This will go lower for the first quarter of the year.”

“You cannot raise prices enough to pay for increases in food and labor. At some point the consumers will stop going out, and then you lose transactions and sales. Prices need to go up over 15% for 2023 to cover increases – about the same as 2022 but didn’t cover costs that year either.”

“We are planning on not passing on to our customers the higher prices we are seeing. Strategically we are evaluating lowering our margin to absorb this.”

“We have not been able to get enough inventory for 2 years. I fear that in 2023 demand will drop, so we will have real problems. Not enough inventory and less demand.”

“We feel the sluggish demand for product because of higher interest rates. December is usually a good month, but things are down. January and February could be very difficult.”

**Table 1. Summary of Tenth District Services Conditions, December 2022**

	December vs. November (percent)*					December vs. Year Ago (percent)*					Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index <sup>^</sup>	SA Index <sup>^^</sup>	Increase	No Change	Decrease	Diff Index <sup>^</sup>	SA Index <sup>^^</sup>	Increase	No Change	Decrease	Diff Index <sup>^</sup>	SA Index <sup>^^</sup>
Plant Level Indicators															
Composite Index				-6	-5				14					10	4
General Revenue/Sales	29	28	42	-13	-9	47	20	33	14	45	23	31	14	6	
Number of Employees	13	64	23	-10	-13	32	38	30	3	27	45	27	0	-7	
Employee Hours Worked	15	64	21	-5	-2	25	60	16	9	28	53	20	8	1	
Part-Time/Temporary Employment	12	67	22	-10	-13	13	66	21	-8	13	69	18	-5	-12	
Wages and Benefits	33	60	6	27	26	75	17	8	68	66	26	8	58	50	
Inventory Levels	35	49	16	19	18	45	41	15	30	36	43	20	16	17	
Credit Conditions/Access to Credit	3	87	10	-8	-9	6	79	14	-8	8	81	12	-4	-6	
Capital Expenditures	22	63	15	6	3	34	47	18	16	36	44	19	17	4	
Input Prices	49	38	13	36	36	79	12	9	69	69	25	5	64	57	
Selling Prices	25	56	19	5	5	59	21	20	39	49	32	20	29	20	

\*Percentage may not add to 100 due to rounding.

<sup>^</sup>Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

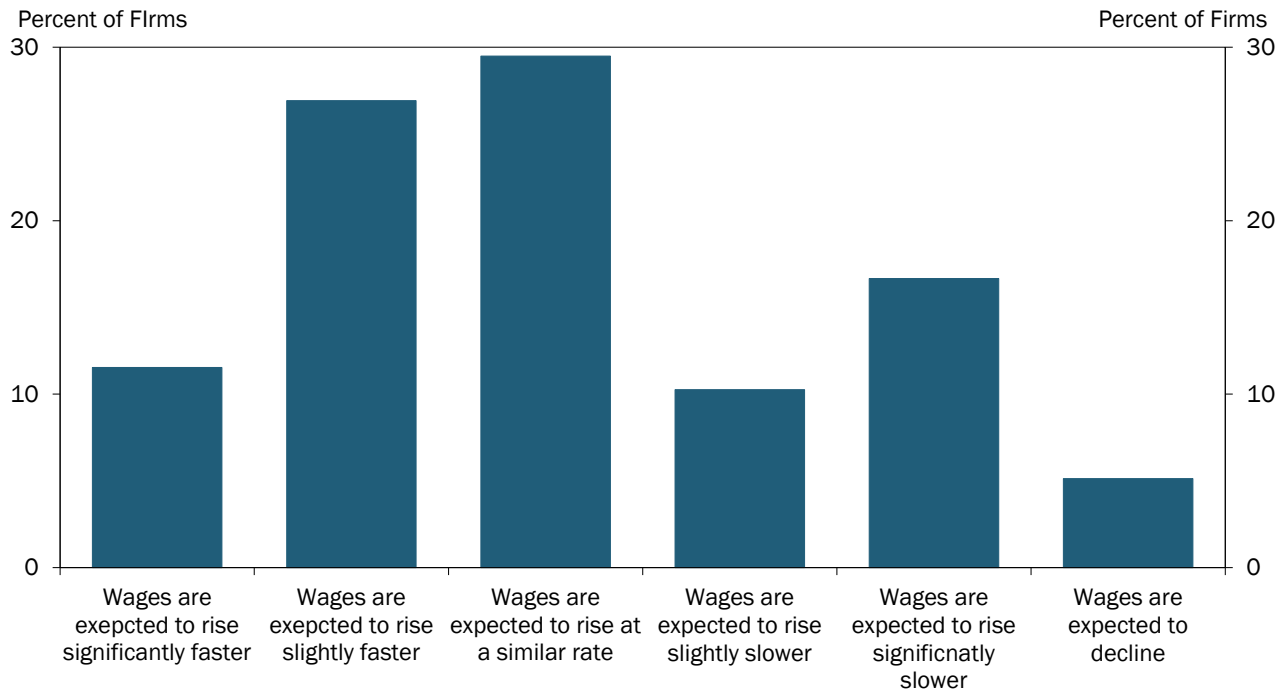
<sup>^^</sup>Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-13.

Note: The December survey was open for a five-day period from December 14-19, 2022 and included 78 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

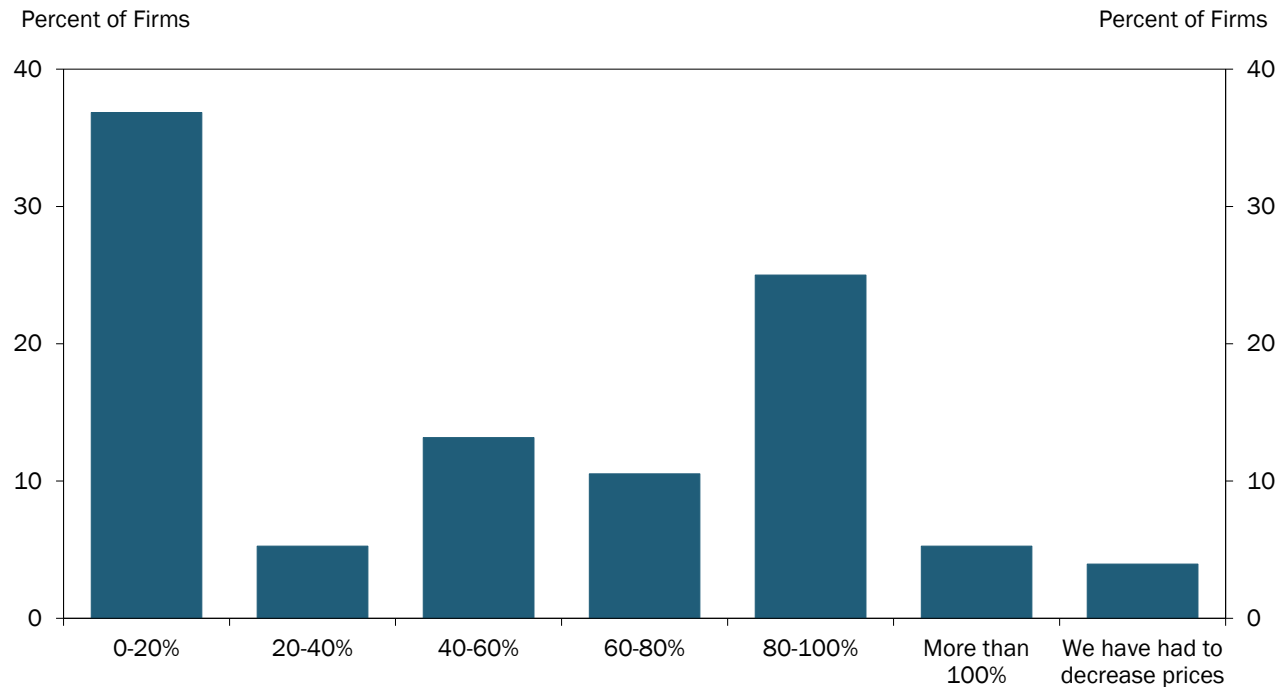
**Chart 1. Services Composite Indexes**



**Chart 2. Special Question: Over the next year, what are your expectations for wages at your firm compared to the past 12 months?**



**Chart 3. Special Question: If your firm is facing higher costs (inputs and labor), 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**

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