Tenth District Services Activity Dipped Slightly in December 2020

by: Chad Wilkerson

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Tenth District services activity dipped slightly from a month ago and remained below year-ago levels, but expectations for future activity increased further.

Business Activity Dipped Slightly

The month-over-month services composite index was -4 in December, down from 10 in November and 12 in October (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Month-over-month indexes were mixed in December. The general revenue and sales index decreased due to slower auto, transportation, tourism, and restaurant activity. On the other hand, retail and real estate activity expanded somewhat. The inventory index posted no change from last month, while indexes for employee hours and part-time employment edged lower. On the other hand, the employment, wages and benefits, and access to credit indexes expanded. Year-over-year indexes continued to decline in December, and the year-over-year composite moved from -16 to -17. Expectations for future services activity increased further, and the composite index rose from 13 to 16.

Special questions

This month contacts were asked special questions about the recent surge in COVID-19 cases and their expectations regarding capital outlays and restraints. Over 70% of contacts indicated the recent surge in COVID-19 cases has negatively affected their firm's business (Chart 2). Contacts noted more customer reluctance and caution resulting in less demand, and many businesses noted more employees have missed work recently after testing positive for COVID-19 or being exposed to the virus. Regarding capital outlays, half of firms surveyed reported investing in IT infrastructure as their primary motivation for the upcoming year, and 35% listed labor-saving technology (Chart 3). Additionally, a third of contacts said equipment to enhance production capacity and/or market expansion was a primary motivator for capital outlays in the upcoming year. On the other hand, 32% of firms indicated they will be reducing capital outlays for facilities for the upcoming year.

Selected Services comments

“It is difficult to operate with the constant expansion and contractions in rules. Going to "stay at home" in most markets crushes sales and employee morale (they worry about the business and exposure to people). When geographies come off "stay at home" we are not the first place [customers] shop; it takes a couple of weeks of them shopping at the big mass stores, then they start to come back to us. About that time the third or fourth "stay at home" order hits and it starts all over again.”

“Overall, we have become quicker to shed labor and overhead costs when possible and focus on keeping core staff. Once core staff is gone a rebound may not be possible.”

“Still sense high customer apprehension over COVID-19. We are planning for continued apprehension and no "new normal" for some time to come. Maybe 12 to 18 months at best. We'll see how the vaccine is received and reevaluate.”

“We have experienced more positive testing during the last wave than we did the previous two.”

“The labor force is exhausted and stretched beyond our ability to keep up. We hope to be able to support testing to "return to work" but that financing is questionable. Who pays? Medical insurance? Employers?”

“Virtual school and unemployment make it impossible to get employees.”

“Marketing is very difficult in this environment and much of our sales have been affected.”

“Consumers seem reluctant to make large purchases with concerns of their future employment.”

“No capital outlays for the next 12 months.”

“We plan to build technology solutions for customer expansion.”

“Sales have stayed elevated over pre-COVID but quarantine time and employee absenteeism are beginning to be more difficult to manage. Net, we see little or no change as long as it doesn't get much worse.”

“Best year in history in sales and profits, increased our match for 401k.”

Survey Data

Current Release

Historical Monthly Data

About the Services Survey

Author

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Chad Wilkerson serves as Oklahoma City Branch Executive and Senior Vice President of Community Development for the Federal Reserve Bank of Kansas City. Wilkerson has been with the Federal Reserve since 1998, starting in Kansas City's research department.Appointed in 2006 as Oklahoma City Branch Executive, Wilkerson is the Bank's lead officer and regional economist in Oklahoma. He recruits and works closely with the Oklahoma City Branch Board of Directors and is responsible for briefing the Kansas City Fed president, a member of the Federal Open Market Committee, on economic trends in the state. His team conducts research and surveys on key regional issues such as energy, manufacturing and migration.Wilkerson was appointed Senior Vice President in 2022, and supports a Community Development team located across the Kansas City Fed's seven-state region. This group works to understand and address issues affecting the ability of underserved communities and small businesses to access credit. Community development focus areas include financial resiliency, affordable housing, community investments, workforce development, rural development and digital inclusion.Wilkerson holds a master's degree in public policy from the University of Chicago, as well as a master's degree from Southwestern Seminary and bachelor's degree from William Jewell College. He serves on the boards of the Economic Club of Oklahoma, the United Way of Central Oklahoma and City Rescue Mission. He lives in Edmond, Oklahoma, with his wife and children.