Services Survey

Tenth District Services Activity Continued to Expand at High Levels in May 2021

by: Chad Wilkerson

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Business Activity Continued to Expand

Tenth District services activity continued to expand at high levels, and expectations for future activity increased (Chart 1 & Table 1). Indexes for input prices and selling prices set survey record highs again in May, with more firms indicating price increases from a month ago and a year ago (highest postings since survey inception in 2014). Additionally, firms expected further increases to input and selling price over the next six months.

The month-over-month services composite index was 18 in May, slightly lower than 20 in April and 22 in March (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Month-over-month indexes were mostly positive in May, indicating expansion. The general revenue and sales index rose, driven by more wholesale, retail, and restaurant activity while auto activity declined slightly. The capital expenditures index increased again in May to the highest rate since late 2019. On the other hand, the inventory index vs. a month ago edged lower. Year-over-year indexes expanded further, now compared to the depths of the pandemic last year, and the year-over-year composite index climbed from 22 to 28. Expectations for future services activity increased to the highest level since late 2019, and the future composite index rose from 26 to 29.

Special Questions

This month contacts were asked special questions about the impacts of rising material prices and lack of availability/delivery time in addition to questions about firms' expectations for wages. Over 62% of firms indicated rising material prices and delivery time delays have negatively affected their firm while 12% of firms have benefitted from these changes (Chart 2). Moving forward, 29% of firms expected rising materials prices and lack of availability/delivery time to persist 3-6 months, 39% reported 6-12 months, and 26% indicated more than a year. Only 6% of firms anticipated these rising materials prices and supply chain issues would be resolved within the next 3 months. Regarding wages for the remainder of 2021, 19% of firms indicated they expected to raise wages up to 2%, 27% of firms expected to raise wages 2-4%, and 14% of firms expected to raise wages 4-6% (Chart 3). Around 28% of firms expected wage increases of 6% or more, and 11% of firms planned to hold wages steady. Around 70% of firms indicated hiring plans have been restrained because they "cannot find workers with required skills."

Selected Services Comments

"We finally started to see an uptick in customer visits. We have to discount heavier than in the past, but it is bringing people in the store. Sales crept up in April and are looking positive so far for May."

"Never have we had such shortages in supply."

"Construction material prices are killing real estate development."

"Building material inflation has had a positive impact on our business."

"The buying frenzy remains unabated in residential real estate. We have now reached a point of auction mentality where it is more important to win the bid than purchase at a sustainable price. At some time there comes a tipping point where a market correction is appropriate and long overdue."

"We are seeing sustained 8-12% cost increases in our supply chain primarily driven by raw materials, packaging, labor cost increases at our suppliers which need to be passed along to us, and weak U.S. dollar increasing our import prices. On top of that our in-bound and out-bound freight costs are up 50-150% YOY. We have just started to permanently raise our prices of finished goods to our customers and consumers."

"Same supply chain and cost increase challenges experienced by most in the retail space. Fortunately, we have been able to raise prices to maintain [profit] margins."

“It is hard finding workers. We have two stores closed on Sundays and Mondays due to staffing.”

“We are losing employees to other firms, we have to offer higher wages to retain employees.”

“The lack of qualified applicants for our retail storefronts, restaurants, and CDL drivers is very concerning and not sustainable. The situation is placing significant pressure on our current employees that want to work and is not sustainable.”

“The lack of workers is killing our sales. There needs to be a strong incentive to go back to work. I have jobs available at all levels and I am willing to train."

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.