



NEWS RELEASE

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Tenth District Services Activity Rose in December
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, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District services activity rose further in December and expectations for future growth remained positive.

“Regional services activity expanded at a faster pace in December,” said Wilkerson.

“Additionally, most firms expect net profits to increase over the next year.”

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 survey includes five years of historical data. Results from past surveys and release dates for future surveys are available at www.kansascityfed.org/research/indicatorsdata/services.

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 rose further in December and expectations for future growth remained positive (Chart 1). Input and selling price indexes continued to expand, but at a slightly slower rate compared with a month ago and a year ago. Expectations for future input prices also increased.

Business Activity Rose in December

The month-over-month services composite index was 16 in December, up from 10 in November and -5 in October (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Most month-over-month indexes increased in December. The indexes for employment, employee hours, part-time employment, and wages and benefits all expanded. The general revenue/sales index also grew, driven by higher retail, wholesale, auto, and health services, and professional and business services activity. Year-over-year services indexes were mostly positive, but lower than last month, and the year-over-year composite index moderated slightly from 31 to 25. Expectations for future services activity also remained positive but the composite index eased somewhat from 29 to 16.

Special Questions

This month contacts were asked special questions about net profits and the impacts of conditions in other industries on their business activity. A higher share of District services contacts reported higher net profits over the past year than reported lower profits, and nearly 57 percent expect net profits to increase over the next year (Chart 2). Almost 30 percent of contacts reported that weakening in other goods-producing sectors (such as agriculture and energy) was leading to weaker conditions for business activity in their area (Chart 3). Another 15 percent of firms indicated strengthening in other goods-producing sectors was leading to stronger conditions for business activity, while over half of firms surveyed said there was no connection between other goods-producing sectors and the strength of business activity.

Selected Services Comments

“Product price increases are finally making their way to us and hurting sales and margins.”

“Cash flow is up partially due to shortage of workers and running short staffed.”

“We can only hope that the markets stay strong in the upcoming years. If lawmakers decide to raise interest or corporate taxes, I believe our substantial growth will halt.”

“We are expecting any increase in revenue to be offset by inflation in expenses with wages and supplies.”

“We look for capacity to come more in line with demand next year... That should allow increased profitability.”

“The continued strength in the economy is great for sales and at the same time is creating a shortage of labor. Along with minimum wage increases and wage increase pressure, we will need to focus on efficiency of operation and sales process to maintain and grow.”

“We have focused on maintaining our market share and making capital improvements while it is still affordable. We are expecting business to increase a huge percentage in 2020 and want to be prepared for the upswing.”

“The increased cost of labor and products is really putting a squeeze on our ability to grow profits.”

“We are not anticipating the same impacts caused by natural disasters, so we expect net profits to increase more than 10% next year.”

“We are expecting the very unusual weather and associated low demand for commodities that happened last year to be much more typical this year, thus improving our outlook dramatically.”

“We continue to look at the expansion of our services lines and fully execute technology to help create efficiencies within existing lines of service.”

“There are more consumers working and their confidence is the highest I’ve seen in decades.”

Table 1. Summary of Tenth District Services Conditions, December 2019

| Plant Level Indicators | December vs. November (percent)* | | | | | December vs. Year Ago (percent)* | | | | | Expected in Six Months (percent)* | | | | |
|------------------------------------|-------------------------------------|--------|------|----|----------|-------------------------------------|------|----|----------|--------|--------------------------------------|----|----|----|--|
| | No | | Diff | SA | No | | Diff | SA | No | | Diff | SA | | | |
| | Increase | Change | | | Increase | Change | | | Increase | Change | | | | | |
| Composite Index | | | 11 | 16 | | | 25 | | | 21 | 16 | | | | |
| General Revenue/Sales | 42 | 30 | 28 | 14 | 20 | 58 | 21 | 21 | 37 | 48 | 30 | 22 | 25 | 21 | |
| Number of Employees | 23 | 67 | 10 | 14 | 19 | 41 | 41 | 18 | 23 | 35 | 52 | 14 | 21 | 16 | |
| Employee Hours Worked | 26 | 54 | 20 | 5 | 12 | 29 | 59 | 12 | 17 | 28 | 57 | 15 | 13 | 6 | |
| Part-Time/Temporary Employment | 21 | 73 | 6 | 15 | 15 | 15 | 77 | 8 | 8 | 15 | 77 | 8 | 8 | 3 | |
| Wages and Benefits | 31 | 64 | 5 | 26 | 24 | 67 | 27 | 6 | 61 | 57 | 37 | 6 | 51 | 44 | |
| Inventory Levels | 18 | 62 | 21 | -3 | 0 | 25 | 51 | 25 | 0 | 23 | 63 | 14 | 9 | 4 | |
| Credit Conditions/Access to Credit | 4 | 95 | 1 | 3 | 2 | 11 | 86 | 3 | 8 | 8 | 89 | 3 | 5 | 3 | |
| Capital Expenditures | 21 | 70 | 10 | 11 | 9 | 38 | 46 | 15 | 23 | 31 | 57 | 12 | 18 | 18 | |
| Input Prices | 27 | 72 | 1 | 26 | 23 | 63 | 31 | 6 | 57 | 55 | 42 | 3 | 52 | 47 | |
| Selling Prices | 18 | 75 | 7 | 11 | 17 | 45 | 39 | 15 | 30 | 42 | 49 | 9 | 32 | 27 | |

*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-12.

Note: The December survey was open for a five-day period from December 11-16, 2019 and included 74 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Index vs. a Month Ago

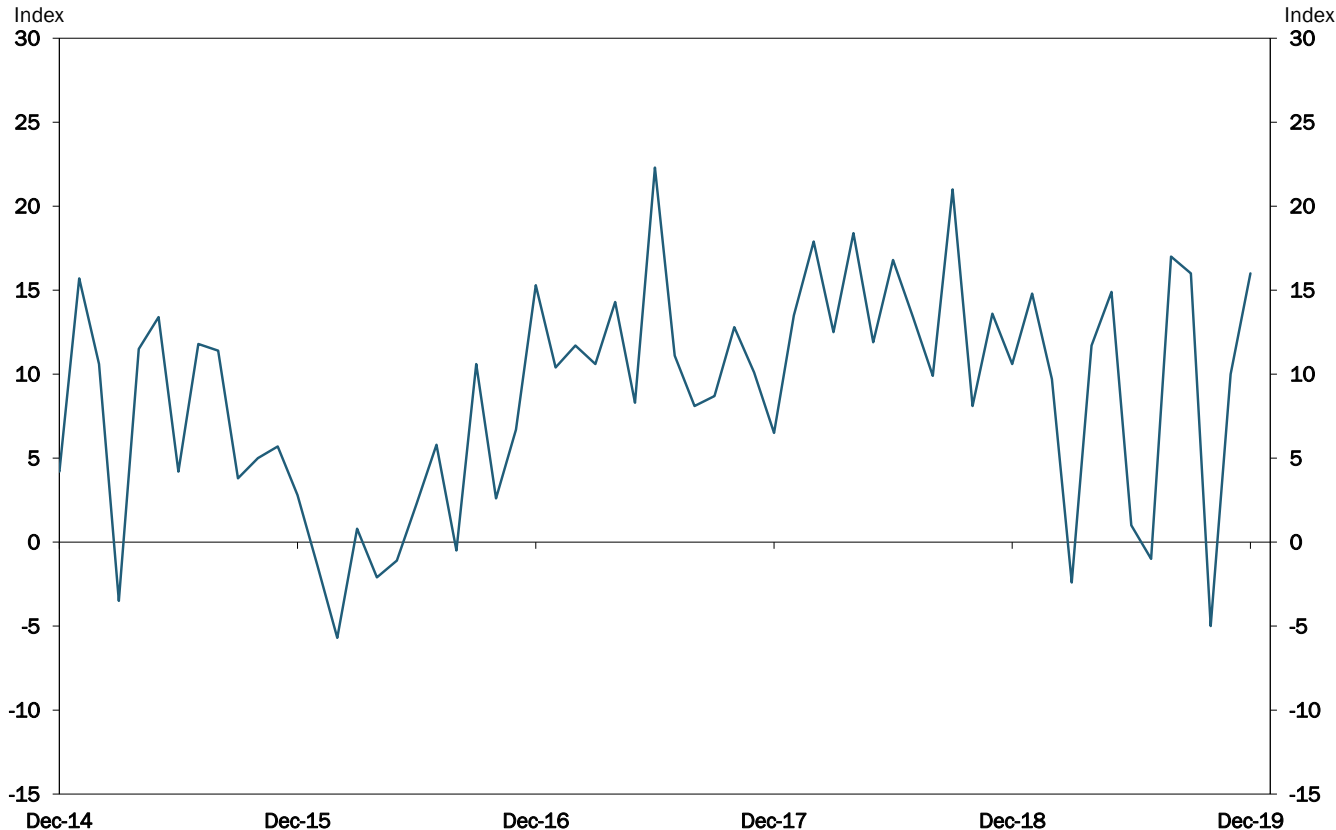


Chart 2. Special Question: What has been the change in your firm's net profit over the past year and how much do you expect net profit to change over the next year?

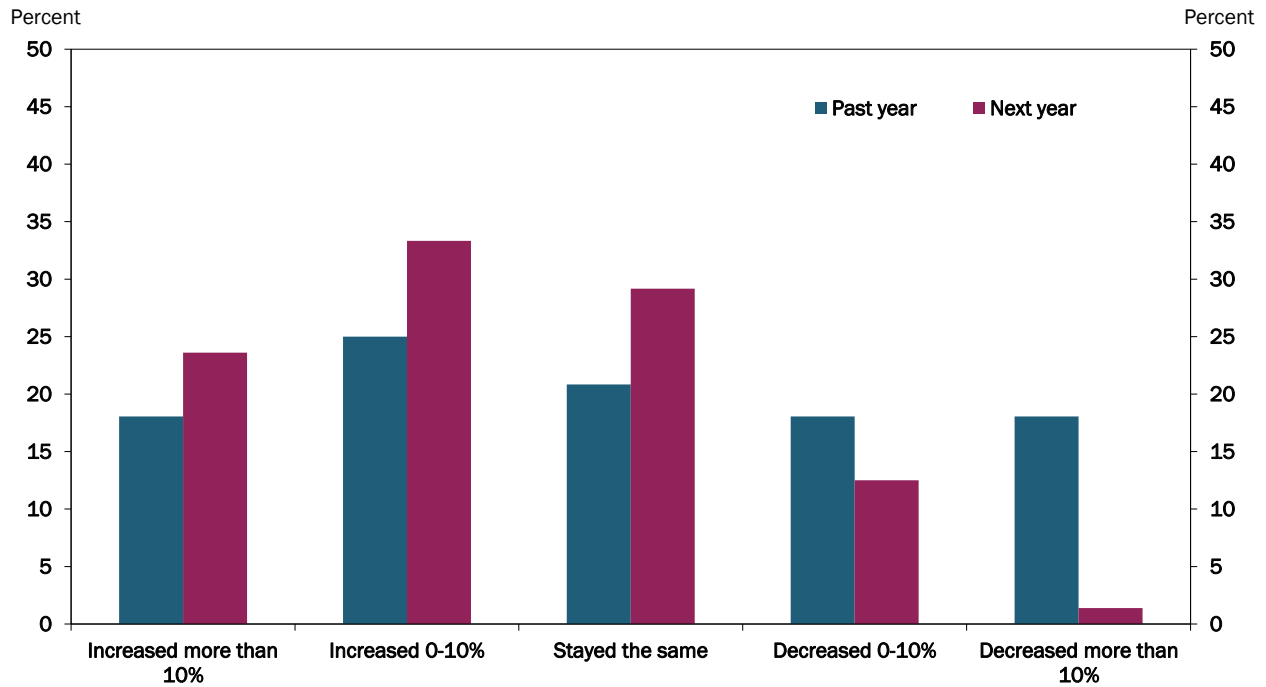


Chart 3. Special Question: How are current developments in other goods-producing sectors (examples: agriculture, energy) affecting business activity in your area?

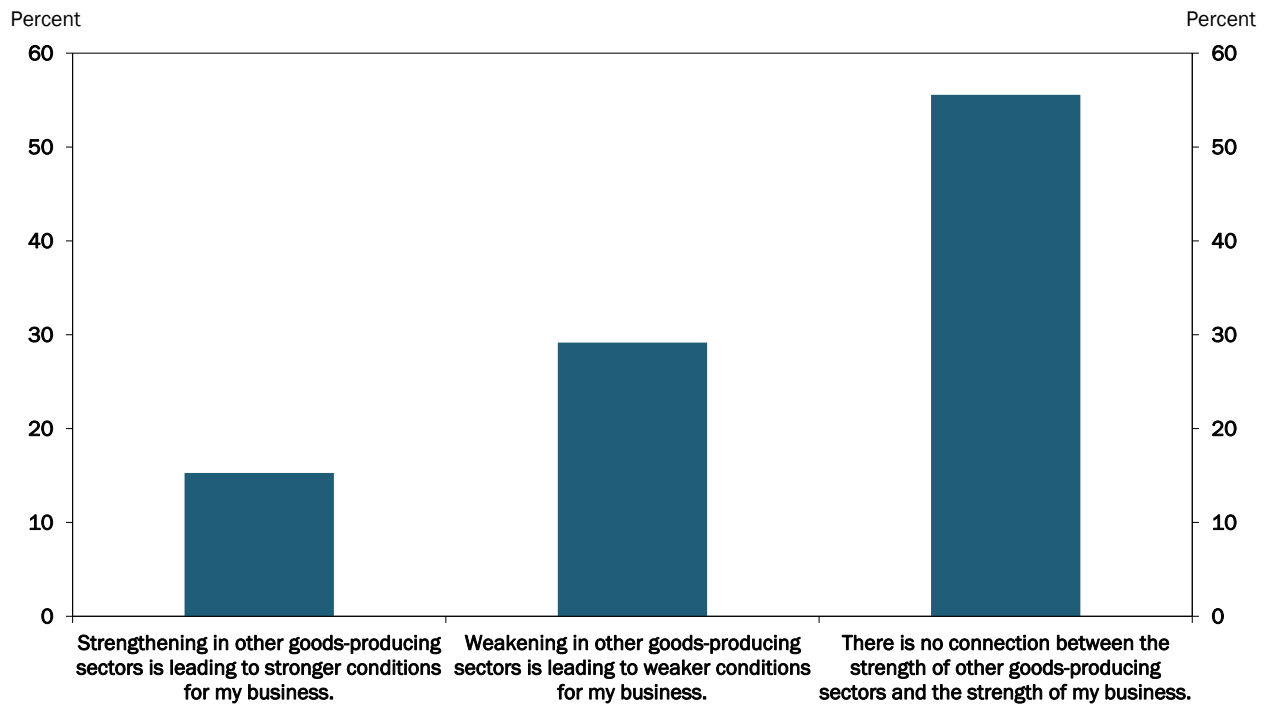


Table 2
Historical Services Survey Indexes

| | Dec'18 | Jan'19 | Feb'19 | Mar'19 | Apr'19 | May'19 | Jun'19 | Jul'19 | Aug'19 | Sep'19 | Oct'19 | Nov'19 | Dec'19 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Versus a Month Ago (seasonally adjusted) | | | | | | | | | | | | | |
| Composite Index | 11 | 15 | 10 | -2 | 12 | 15 | 1 | -1 | 17 | 16 | -5 | 10 | 16 |
| General revenue/sales | 5 | 27 | 20 | -6 | 15 | 19 | -1 | -3 | 33 | 29 | -7 | 15 | 20 |
| Number of employees | 17 | 7 | -5 | -4 | 12 | 6 | -2 | 3 | 1 | 8 | -2 | 7 | 19 |
| Employee hours worked | 6 | 12 | 3 | -3 | 23 | 16 | -2 | 7 | 1 | 20 | -3 | 5 | 12 |
| Part-time/temporary employment | 6 | 8 | 3 | 11 | 9 | 12 | 12 | 7 | 0 | 2 | 8 | 11 | 15 |
| Wages and benefits | 22 | 34 | 29 | 33 | 24 | 23 | 27 | 23 | 19 | 28 | 19 | 22 | 24 |
| Inventory levels | 15 | -4 | 6 | 9 | 3 | 18 | 8 | -2 | 0 | -5 | -5 | 3 | 0 |
| Credit conditions/access to credit | -6 | -6 | -1 | -6 | 1 | 1 | 1 | 1 | 2 | 1 | 3 | 3 | 2 |
| Capital expenditures | 14 | 14 | 17 | 27 | 18 | 23 | 5 | 12 | 16 | 29 | 5 | 14 | 9 |
| Input prices | 23 | 34 | 46 | 38 | 39 | 32 | 27 | 33 | 26 | 33 | 20 | 32 | 23 |
| Selling prices | 17 | 14 | 21 | 13 | 8 | 10 | 3 | 8 | -1 | 22 | 7 | 23 | 17 |
| Versus a Year Ago (not seasonally adjusted) | | | | | | | | | | | | | |
| Composite Index | 18 | 21 | 15 | 21 | 17 | 29 | 12 | 17 | 15 | 26 | 21 | 31 | 25 |
| General revenue/sales | 23 | 29 | 28 | 21 | 16 | 38 | 19 | 17 | 19 | 36 | 26 | 40 | 37 |
| Number of employees | 12 | 16 | 7 | 18 | 24 | 20 | -3 | 18 | 10 | 23 | 21 | 30 | 23 |
| Employee hours worked | 12 | 13 | 17 | 15 | 22 | 20 | -1 | 22 | 21 | 24 | 13 | 28 | 17 |
| Part-time/temporary employment | 10 | 3 | 10 | 13 | 3 | 8 | 4 | 12 | 5 | 11 | 11 | 9 | 8 |
| Wages and benefits | 56 | 60 | 64 | 63 | 60 | 63 | 48 | 59 | 56 | 70 | 64 | 68 | 61 |
| Inventory levels | 12 | 9 | -4 | 24 | 11 | 21 | 16 | 16 | 11 | 6 | 6 | 9 | 0 |
| Credit conditions/access to credit | -4 | 0 | 1 | -6 | 4 | 2 | 7 | -3 | 1 | -3 | 4 | 11 | 8 |
| Capital expenditures | 33 | 21 | 16 | 29 | 22 | 30 | 15 | 21 | 22 | 31 | 21 | 22 | 23 |
| Input prices | 45 | 51 | 46 | 56 | 56 | 56 | 45 | 52 | 45 | 52 | 46 | 57 | 57 |
| Selling prices | 29 | 30 | 37 | 38 | 24 | 40 | 25 | 29 | 27 | 36 | 31 | 39 | 30 |
| Expected in Six Months (seasonally adjusted) | | | | | | | | | | | | | |
| Composite Index | 25 | 17 | 25 | 23 | 16 | 27 | 17 | 14 | 18 | 18 | 20 | 29 | 16 |
| General revenue/sales | 36 | 31 | 39 | 31 | 20 | 43 | 24 | 23 | 28 | 27 | 31 | 42 | 21 |
| Number of employees | 18 | 7 | 17 | 19 | 16 | 16 | 15 | 13 | 9 | 18 | 11 | 21 | 16 |
| Employee hours worked | 11 | 10 | 11 | 19 | 17 | 23 | 7 | 11 | 6 | 14 | 0 | 14 | 6 |
| Part-time/temporary employment | 13 | 6 | 11 | 13 | 0 | 12 | 5 | -1 | -5 | 6 | 12 | 7 | 3 |
| Wages and benefits | 41 | 36 | 42 | 47 | 42 | 45 | 33 | 43 | 43 | 50 | 48 | 47 | 44 |
| Inventory levels | 6 | -1 | 2 | 11 | 4 | 2 | 0 | -6 | 5 | -6 | 8 | 8 | 4 |
| Credit conditions/access to credit | -5 | -1 | 6 | -4 | 2 | 8 | 7 | -2 | 5 | 3 | 2 | 9 | 3 |
| Capital expenditures | 27 | 25 | 28 | 25 | 16 | 37 | 12 | 10 | 12 | 4 | 12 | 25 | 18 |
| Input prices | 37 | 48 | 50 | 54 | 50 | 42 | 42 | 47 | 43 | 41 | 42 | 45 | 47 |
| Selling prices | 21 | 33 | 39 | 38 | 33 | 28 | 26 | 19 | 25 | 33 | 24 | 34 | 27 |