



NEWS RELEASE

FEDERAL RESERVE BANK *of* KANSAS CITY
DENVER • OKLAHOMA CITY • OMAHA

FOR IMMEDIATE RELEASE

Mar. 29, 2019

CONTACT: Pam Campbell

(405) 270-8617

Pam.Campbell@kc.frb.org

Tenth District Services Activity Edged Down

Federal Reserve Bank of Kansas City Releases March Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the March 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 edged down, though expectations for future months remained positive.

“This was the first negative reading for our services sector in almost three years,” said Wilkerson. “But some contacts reported severe weather as a factor, and indexes for future hiring and capital spending remained solid.”

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.

###

TENTH DISTRICT SERVICES SUMMARY

Tenth District services activity edged down in March, though expectations for future months remained positive (Chart 1). The price indexes were lower than last month but still positive, and business contacts expect prices to continue to rise.

Business Edged Lower in March

The month-over-month services composite index was -2 in March, down from 10 in February and 15 in January (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Most month-over-month indexes declined, and several indexes remained or turned negative. The general revenue/sales index dropped considerably in March, driven by a decrease in transportation activity and healthcare services. However, the month-over-month capital expenditures index climbed from 17 to 27, the highest reading in over a year. Additionally, year-over-year services indexes grew modestly. Compared with a year ago, the services composite index rose from 15 to 21. In contrast, expectations for future services activity inched down, with the future composite index dipping from 25 to 23.

Special Questions

This month contacts were asked special questions about their expectations for capital spending. Nearly 39 percent of business contacts indicated they expect spending on new plant and equipment to increase over the next 6 to 12 months relative to actual spending over the past 6 to 12 months (Chart 2). Conversely, 14 percent of firms expect to decrease capital spending. Most firms reported that recent changes in business and consumer confidence had little effect on their capital spending plans. Of the contacts who reported plans to increase capital spending, 42 percent indicated they needed to replace other capital goods (Chart 3). Additionally, around 30 percent noted expectations of high sales growth, high capacity utilization, and a need to replace information technology equipment as major drivers behind their spending plans.

Selected Services Comments

“The winter weather was terrible for us. Almost every weekend, when business is usually BIG, we got hit with a big storm. We gear up for a big night and no customers show up.”

“The only component part that has hurt business to some degree is the weather and the floods.”

“Because of the uncertainty in the prior years regarding possible tax increases, and possible interest hikes, we were cautious about making any capital expenditures. The new tax rates make it possible to reinvest in our business to grow and expand our business.”

“We are concerned about the lack of foreign tourist travel -- they are willing to spend, but we have very few reservations for this summer.”

“Affordability is still strong, job and wage increases stimulate this, but also our markets have not exhibited double digit changes either up or down in the housing market during this period, even in the bubble years. I expect this pattern to continue with small increases upward in housing prices.”

“Economic factors put us behind schedule on replacing equipment. We needed to catch up. The accelerated tax depreciation was a nice bonus.”

“We have purchased new equipment earlier than expected to take advantage of the tax savings.”

“Best year ever last year. We updated all equipment and paid cash for some to reduce risk of a downturn.”

“We have purchased additional businesses in the last year because of strong economic outlook.”

“We [authorized] more capital spending in 2018 due to the depreciation allowance and other factors. However with the current uncertainty in the business and political environment, we will now materially reduce capital expenditures and wait for the next most rational window of opportunity.”

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

	March vs. February (percent)*					March vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}	Increase	No Change	Decrease	Diff Index [^]	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}
Plant Level Indicators														
Composite Index				0	-2				21				29	23
General Revenue/Sales	31	36	33	-3	-6	49	24	28	21	56	26	19	37	31
Number of Employees	13	71	16	-3	-4	35	48	17	18	36	51	13	24	19
Employee Hours Worked	17	64	19	-1	-3	29	57	14	15	35	54	11	24	19
Part-Time/Temporary Employment	16	79	4	12	11	20	73	7	13	19	74	7	12	13
Wages and Benefits	32	63	5	27	33	71	21	8	63	51	45	4	46	47
Inventory Levels	26	60	14	13	9	37	50	13	24	29	57	14	14	11
Credit Conditions/Access to Credit	0	95	5	-5	-6	3	89	9	-6	1	93	6	-4	-4
Capital Expenditures	28	68	4	24	27	38	54	8	29	33	57	10	24	25
Input Prices	36	64	0	36	38	60	36	4	56	53	46	1	51	54
Selling Prices	24	67	10	14	13	49	39	12	38	46	45	9	38	38

*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 March survey was open for a five-day period from March 20-25, 2019 and included 75 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Index vs. a Month Ago

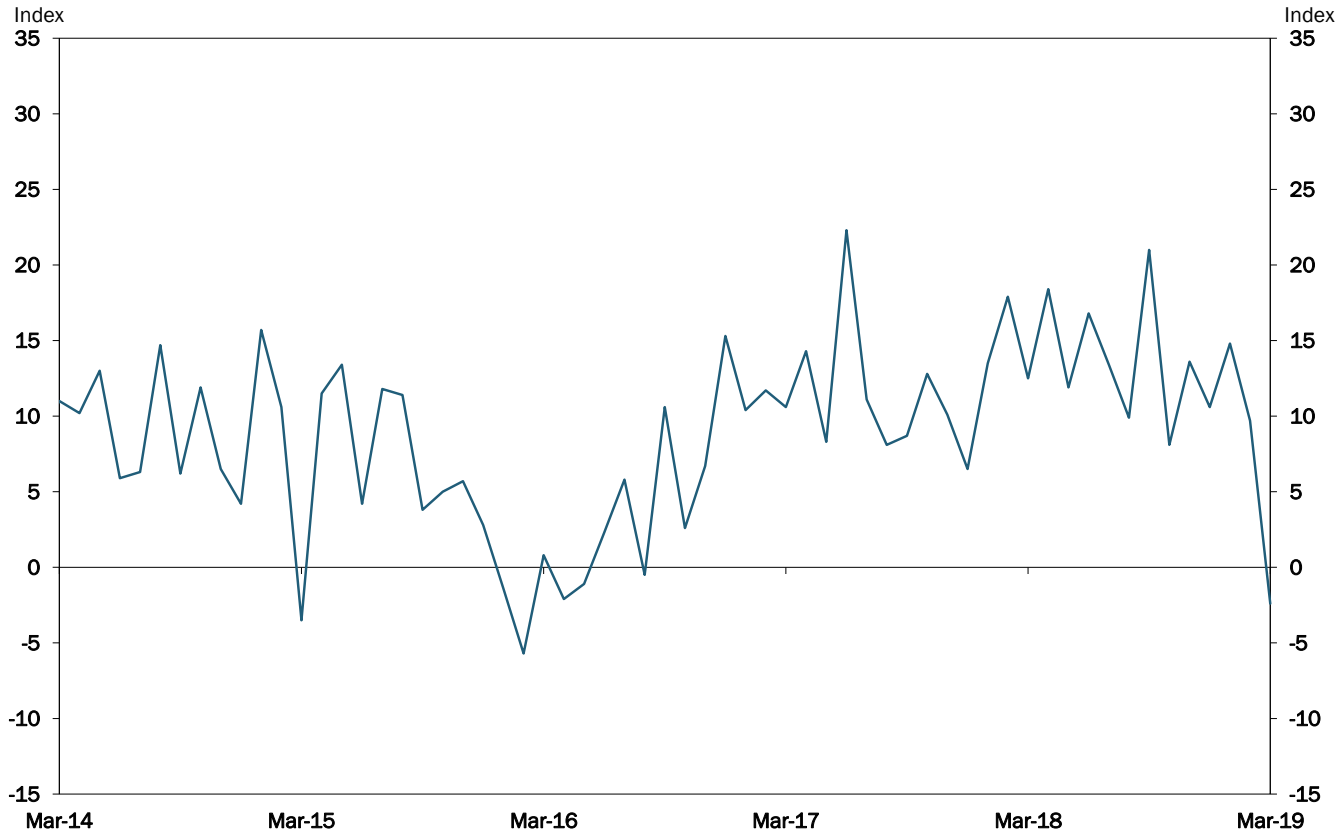


Chart 2. Special Question: Changes to capital spending plans

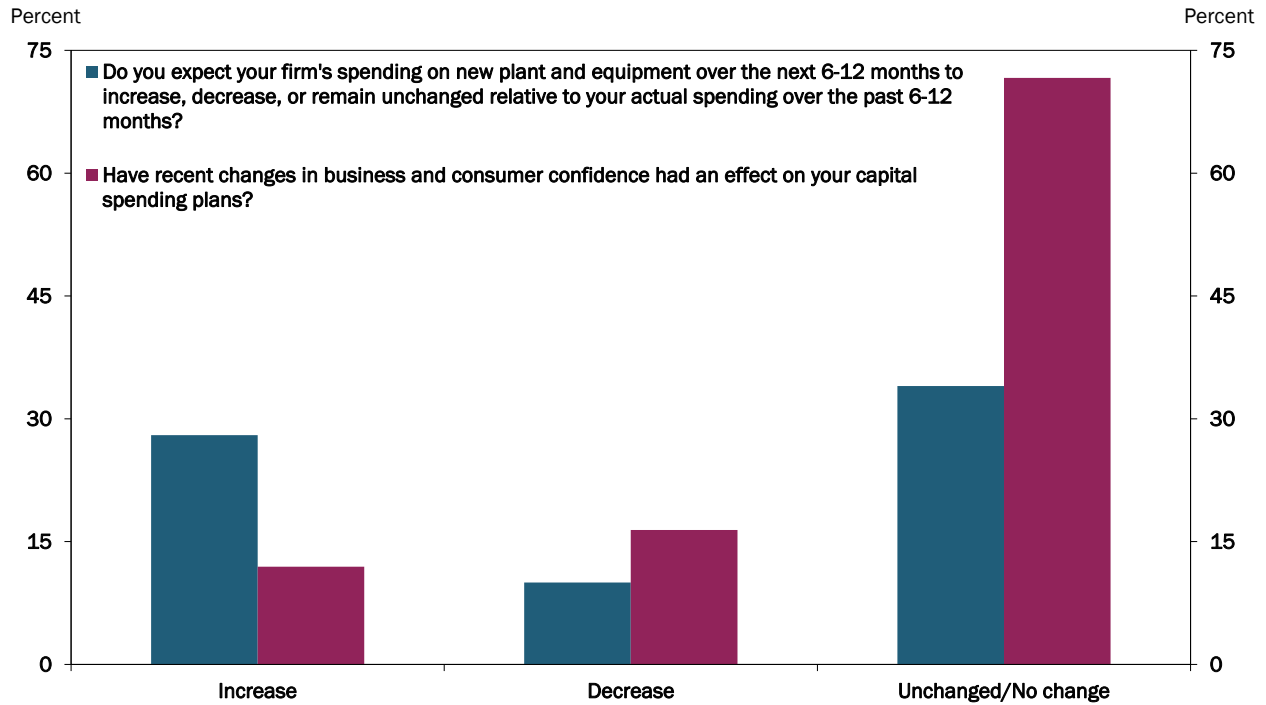


Chart 3. Special Question: What are the major factors behind your plan to increase capital spending? Please check any that apply.

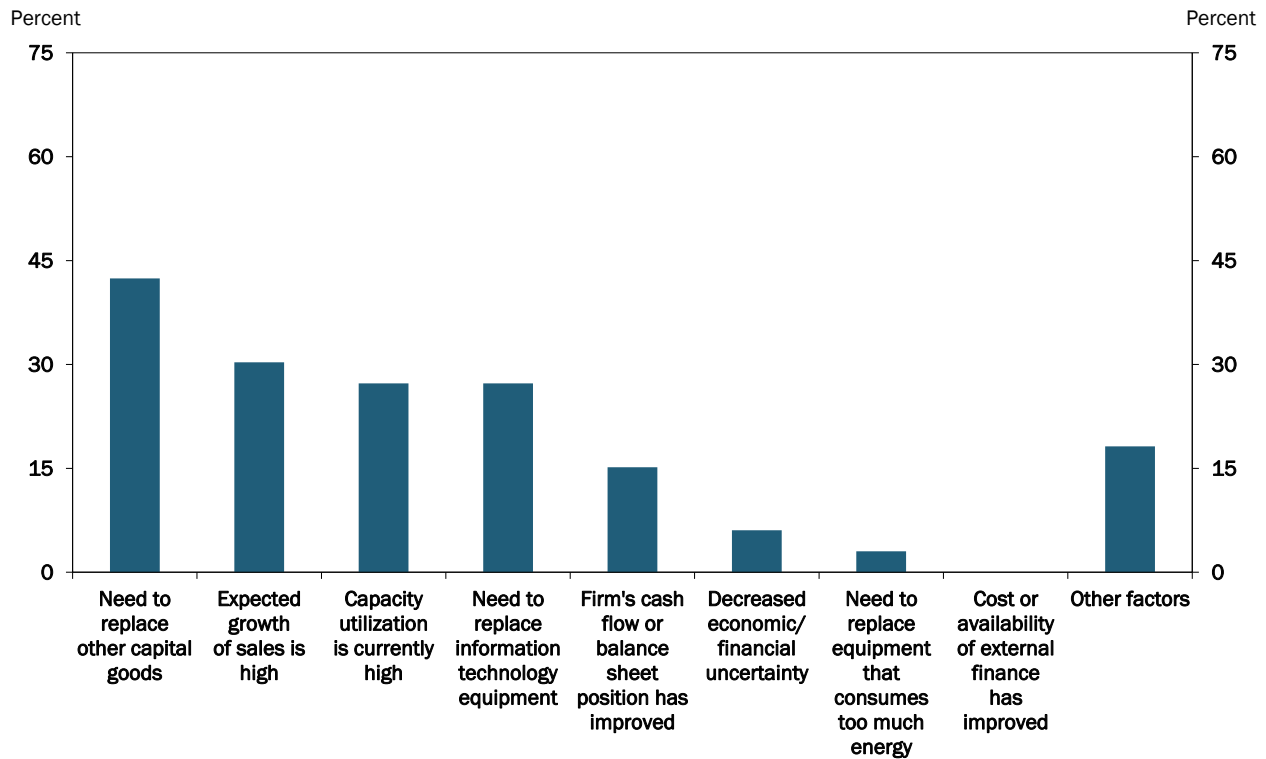


Table 2
Historical Services Survey Indexes

	Mar'18	Apr'18	May'18	Jun'18	Jul'18	Aug'18	Sep'18	Oct'18	Nov'18	Dec'18	Jan'19	Feb'19	Mar'19
Versus a Month Ago (seasonally adjusted)													
Composite Index	13	18	12	17	13	10	21	8	14	11	15	10	-2
General revenue/sales	12	29	21	24	22	16	38	11	18	5	27	20	-6
Number of employees	13	9	0	10	4	5	4	6	4	17	7	-5	-4
Employee hours worked	11	15	5	11	10	1	27	2	12	6	12	3	-3
Part-time/temporary employment	6	9	10	5	3	-4	10	15	7	6	8	3	11
Wages and benefits	32	32	28	31	17	27	34	31	29	22	34	29	33
Inventory levels	13	6	7	9	6	2	4	4	17	15	-4	6	9
Credit conditions/access to credit	4	5	1	2	1	-1	-1	2	-6	-6	-6	-1	-6
Capital expenditures	18	18	21	17	12	9	10	15	6	14	14	17	27
Input prices	34	36	36	35	34	33	40	34	38	23	34	46	38
Selling prices	26	8	28	27	26	20	25	15	28	17	14	21	13
Versus a Year Ago (not seasonally adjusted)													
Composite Index	24	26	17	18	24	25	28	21	27	18	21	15	21
General revenue/sales	23	38	14	17	29	31	41	25	33	23	29	28	21
Number of employees	24	19	18	22	18	24	22	21	20	12	16	7	18
Employee hours worked	16	15	15	25	16	19	19	20	22	12	13	17	15
Part-time/temporary employment	10	0	9	13	18	10	5	14	13	10	3	10	13
Wages and benefits	59	62	57	63	58	58	70	62	51	56	60	64	63
Inventory levels	24	8	22	13	18	13	6	9	21	12	9	-4	24
Credit conditions/access to credit	4	9	4	2	4	0	-3	-3	-2	-4	0	1	-6
Capital expenditures	22	29	28	27	29	23	31	35	22	33	21	16	29
Input prices	54	56	65	59	57	68	63	49	57	45	51	46	56
Selling prices	47	37	48	43	51	47	55	36	42	29	30	37	38
Expected in Six Months (seasonally adjusted)													
Composite Index	39	39	29	30	28	33	32	28	25	25	17	25	23
General revenue/sales	51	53	36	40	36	43	44	39	29	36	31	39	31
Number of employees	34	34	28	28	25	27	22	26	19	18	7	17	19
Employee hours worked	27	25	23	14	19	26	23	20	15	11	10	11	19
Part-time/temporary employment	9	6	12	10	8	9	9	19	14	13	6	11	13
Wages and benefits	53	48	39	50	47	46	62	53	38	41	36	42	47
Inventory levels	15	12	14	9	13	17	16	5	22	6	-1	2	11
Credit conditions/access to credit	-1	3	1	1	7	-3	-2	0	-2	-5	-1	6	-4
Capital expenditures	23	27	26	26	16	22	15	18	19	27	25	28	25
Input prices	45	52	33	44	41	52	53	44	47	37	48	50	54
Selling prices	37	30	34	34	28	33	44	31	38	21	33	39	38