



NEWS RELEASE

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

FOR IMMEDIATE RELEASE

August 28, 2020

CONTACT: Pam Campbell

(405) 270-8617

Pam.Campbell@kc.frb.org

Tenth District Services Activity Expanded Again
Federal Reserve Bank of Kansas City Releases August Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the August 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 expanded again in August, but was still much lower than a year ago, while expectations for future activity rebounded.

“In August, services activity continued to grow, but also lagged year-ago levels considerably,” said Wilkerson. “Nearly 75% of firms said government programs had positively affected their business over the past 3 months, but a majority of businesses also reported challenges rehiring furloughed or laid-off employees due to the extra CARES Act unemployment benefits.”

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. 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 expanded again in August, but was still much lower than a year ago, while expectations for future activity rebounded (Chart 1 & Table 1). The indexes for input and selling prices increased at a faster pace in August. Firms expected input and selling prices to rise further over the next six months.

Business Activity Expanded Again in August

The month-over-month services composite index was 20 in August, unchanged from 20 in July, and up significantly from 3 in June (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Month-over-month indexes were similar in August to the postings from July. The general revenue and sales index was still high, driven by increased activity for wholesale, transportation, real estate, restaurants, tourism and hotels, while retail activity declined slightly. The indexes for employee hours, part-time employment, wages and benefits, and capital expenditures expanded at a faster pace in August, and the employment index remained positive. On the other hand, the month-over-month indexes for inventories and credit conditions decreased again in August. In addition, most year-over-year indexes declined further in August, and the year-over-year composite index dipped from -20 to -24. However, the year-over-year index for capital expenditures rose into positive territory for the first time since February. Expectations for future services activity rebounded in August, and the composite index grew from -2 to 11.

Special Questions

This month contacts were asked special questions about the impact of government stimulus and unemployment benefits. Nearly 75% of contacts reported that government stimulus programs positively contributed to their business's performance in the past three months (Chart 2). A number of firms noted the Paycheck Protection Program (PPP) loans helped cover cash flow and retain staff, and 44% of firms indicated their business outlook was dependent on additional government support. Around 60% of contacts indicated the CARES Act extra \$600/week or recent \$400/week boost in unemployment benefits created some or significant difficulties in bringing furloughed or laid-off employees back to work (Chart 3). 40% of businesses reported difficulty sourcing inputs, such as materials or employees.

Selected Services Comments

“Need more PPP help.”

“The PPP loans with forgiveness of wages was a brilliant idea. I kept the employment relationship intact and instigated a quick recovery when business returned.”

“Sales have slowed and we were considering layoffs until after the pandemic was over, however we secured a PPP loan and were able to operate and keep all of our employees.”

“Our sales were down 20% in March then about 15% in April. But we have pivoted and are sales are flat at the moment. The PPP gave us time to pivot and helped us work to boost sales in new areas. It was a HUGE help for us.”

“Lumber market has never seen the meteoric rise in the cost of dimension that we have seen in the past 4 to 6 weeks. Past rallies have developed over a much longer time frame, then peaked out. It will hurt profits for both material suppliers and builder customers that have sold houses to be built at a fixed price.”

“When business volumes returned to normal (plus) we were suspicious that the extra \$600 from the Cares Act impeded our ability to hire new employees - our suspicions were confirmed when we were able to increase our [labor force] by 10% within the first two weeks of August.”

“Some of our more entry level or front line folks in our production/essential roles have chosen to simply stay home and take the stimulus money versus come to work.”

“We have not made any employment changes due to pandemic.”

“Could use some employees but unemployment payments are too good.”

“Hourly store members were distracted by higher unemployment benefits. This is getting better now. We continue to pay \$200 per month COVID-19 stay bonus to hourly team members.”

“Customers are very sheepish due to all of the volatility and unrest, combined with the healthcare crisis (COVID-19) - leading them to not have confidence to make major or long term decisions.”

Table 1. Summary of Tenth District Services Conditions, August 2020

	August vs. July (percent)*					August 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				16	20				-24				6	11	
General Revenue/Sales	51	31	18	33	37	34	8	58	-24	47	16	36	11	17	
Number of Employees	19	69	12	7	10	20	38	42	-22	28	50	22	7	10	
Employee Hours Worked	26	65	9	16	20	19	41	41	-22	27	51	22	5	12	
Part-Time/Temporary Employment	14	75	11	3	5	14	59	27	-14	14	68	18	-4	-4	
Wages and Benefits	30	70	0	30	30	50	31	19	31	36	53	11	26	27	
Inventory Levels	15	56	29	-14	-9	13	49	39	-26	22	50	28	-6	-2	
Credit Conditions/Access to Credit	4	88	8	-4	-4	7	74	19	-12	4	86	9	-5	-5	
Capital Expenditures	27	60	12	15	17	31	47	22	8	24	58	18	6	9	
Input Prices	37	60	3	34	37	52	33	15	37	41	52	7	34	33	
Selling Prices	32	50	18	15	16	47	27	26	22	38	43	19	19	24	

*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-13.

Note: The August survey was open for a five-day period from August 19-24, 2020 and included 74 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes

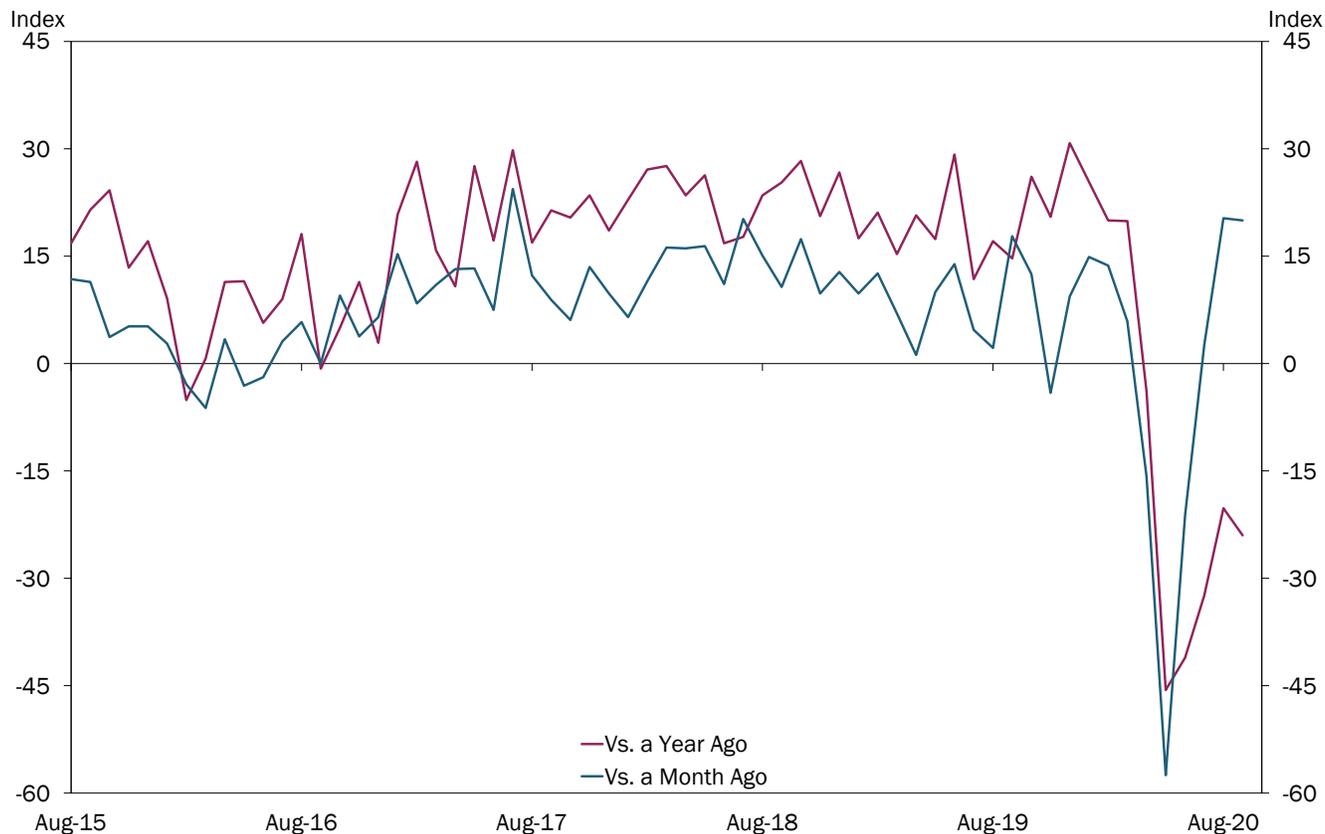


Chart 2. Special Question: To what extent did government stimulus contribute to your business's performance in the past three months?

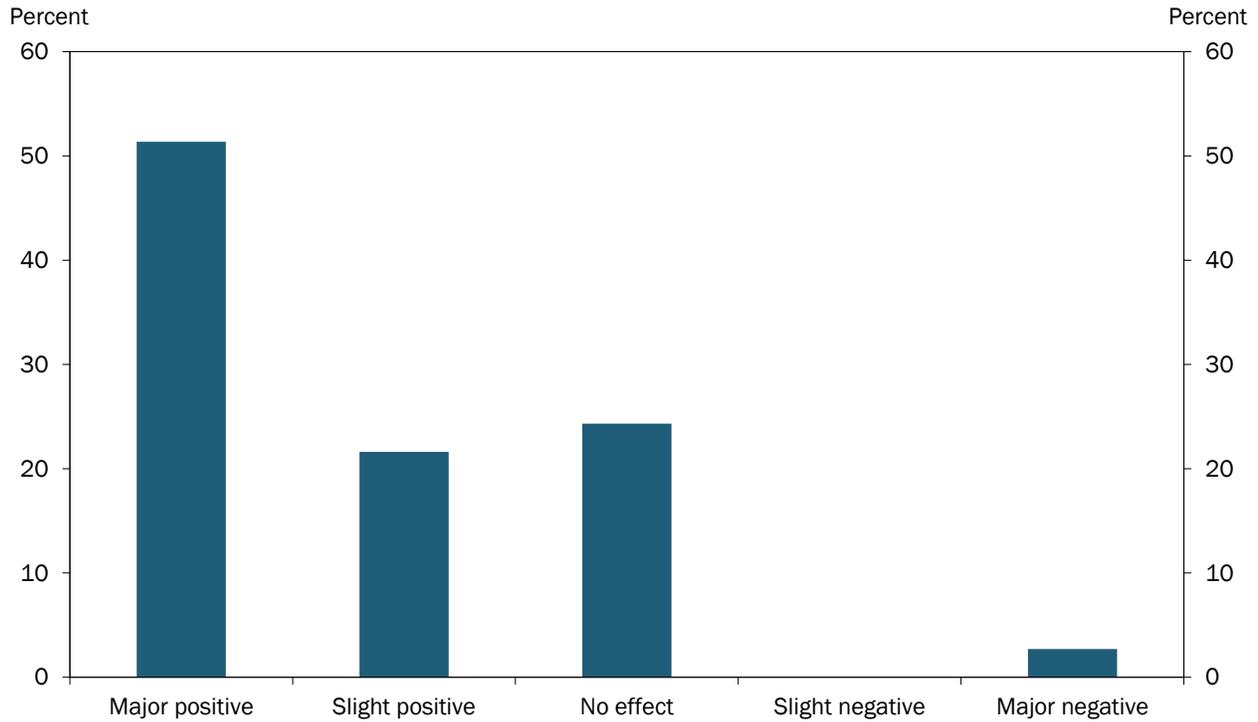


Chart 3. Special Question: What challenges (if any) has the CARES Act extra \$600/week or recent \$400/week boost in unemployment benefits created in bringing employees back to work?

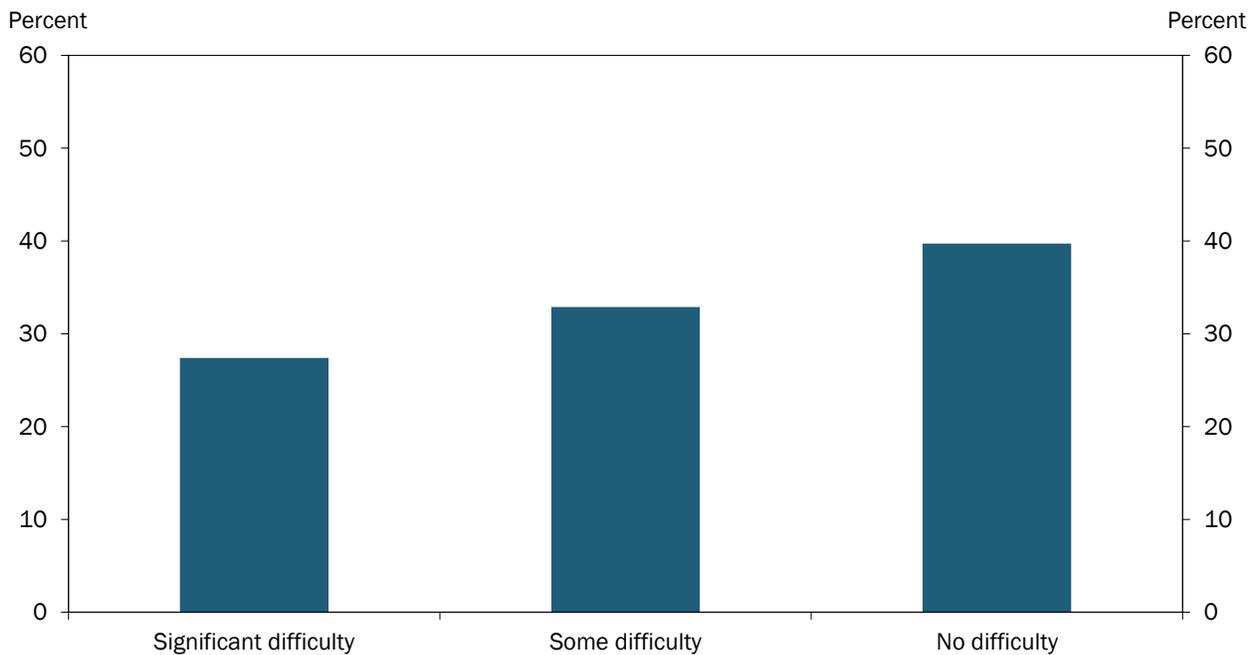


Table 2
Historical Services Survey Indexes

	Aug'19	Sep'19	Oct'19	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20
Versus a Month Ago (seasonally adjusted)													
Composite Index	18	13	-4	9	15	14	6	-16	-58	-21	3	20	20
General Revenue/Sales	34	22	-6	14	19	16	7	-17	-81	-21	12	37	37
Number of Employees	2	7	-1	6	18	13	6	-15	-42	-19	2	12	10
Employee Hours Worked	7	15	1	5	10	4	18	-19	-69	-31	2	15	20
Part-Time/Temporary Employment	2	3	7	9	15	6	12	-24	-37	-25	-10	1	5
Wages and Benefits	21	27	20	22	28	29	34	1	-22	-6	10	16	30
Inventory Levels	1	-3	-4	3	0	9	3	-14	-22	-25	-20	-9	-9
Credit Conditions/Access to Credit	2	1	2	3	2	2	-1	-2	-4	-4	-7	-3	-4
Capital Expenditures	16	29	6	14	9	15	8	-12	-33	-25	-13	3	17
Input Prices	28	33	23	32	26	33	22	17	-3	13	39	30	37
Selling Prices	0	22	8	16	15	22	20	-4	-34	-15	9	13	16
Versus a Year Ago (not seasonally adjusted)													
Composite Index	15	26	21	31	25	20	20	-4	-46	-41	-32	-20	-24
General revenue/sales	19	36	26	40	37	26	28	-4	-58	-53	-40	-13	-24
Number of employees	10	23	21	30	23	16	17	-7	-42	-28	-16	-31	-22
Employee hours worked	21	24	13	28	17	22	23	-3	-55	-44	-30	-29	-22
Part-time/temporary employment	5	11	11	9	8	13	11	-10	-25	-26	-18	-20	-14
Wages and benefits	56	70	64	68	61	58	65	31	12	8	30	31	31
Inventory levels	11	6	6	9	0	11	4	1	-20	-31	-38	-22	-26
Credit conditions/access to credit	1	-3	4	11	8	4	-3	0	-3	-10	-8	-12	-12
Capital expenditures	22	31	21	22	23	15	10	-14	-29	-31	-22	-10	8
Input prices	45	52	46	57	57	53	55	41	14	22	46	38	37
Selling prices	27	36	31	39	30	32	37	22	-19	1	14	20	22
Expected in Six Months (seasonally adjusted)													
Composite Index	18	17	20	30	15	28	23	-30	-28	-2	9	-2	11
General revenue/sales	27	27	30	44	19	34	30	-34	-36	-1	14	1	17
Number of employees	11	16	11	21	15	27	17	-31	-23	0	9	-4	10
Employee hours worked	8	12	1	15	7	26	15	-32	-26	-9	12	3	12
Part-time/temporary employment	-4	7	8	7	3	15	15	-15	-5	5	11	-1	-4
Wages and benefits	43	48	45	49	45	56	51	-10	6	20	29	32	27
Inventory levels	4	-6	6	6	4	15	14	-18	-13	-9	-5	-6	-2
Credit conditions/access to credit	4	3	2	9	3	5	0	-14	-6	1	1	-4	-5
Capital expenditures	14	8	14	26	13	19	1	-33	-30	-21	-7	-10	9
Input prices	43	42	43	45	50	54	46	7	0	23	45	32	33
Selling prices	26	31	25	32	28	32	23	-12	-16	10	18	17	24