



NEWS RELEASE

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

IMMEDIATE RELEASE

March 27, 2020

CONTACT: Pam Campbell

(405) 270-8617

Pam.Campbell@kc.frb.org

Tenth District Services Activity Decreased Significantly
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 decreased significantly in March to the lowest level in survey history (since 2014), and firms expected business activity to drop further in the future.

“We saw a significant decrease in regional services activity as businesses were negatively affected by COVID-19, and firms expected more activity to drop off moving forward,” said Wilkerson. “Over 54 percent of firms expected lower levels of employment for 2020 due to COVID-19 and recent market volatility, and nearly 63 percent of contacts were concerned about cash availability.”

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 decreased significantly in March to the lowest level in survey history (since 2014), and firms expected business activity to drop further in the future (Chart 1 & Table 1). The input price index expanded at a slower pace and the selling price index declined compared with a month ago. Expectations for future input prices remained positive, while firms anticipated lower selling prices in six months.

Business Activity Decreased Significantly in March

The month-over-month services composite index was -16 in March, the lowest posting since the survey started in 2014, and down significantly from 6 in February and 14 in January (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Nearly all month-over-month indexes turned negative. The index for wages and benefits remained slightly positive, but was still the lowest level in survey history. The decrease in general revenue/sales index was broad across business sectors, driven especially by a steep decline in consumer spending activity. Most year-over-year services indexes also dropped into negative territory, and the year-over-year composite index fell from 20 to -4. Expectations for future services activity decreased sharply, and the expected composite index posted the worst change from a month ago in survey history, dropping from 23 to -30.

Special Questions

This month contacts were asked special questions about the effects of Coronavirus (COVID-19) and recent market volatility. Nearly 82 percent of businesses reported decreased outlooks for business activity and over 75 percent reported a lower demand outlook for products or services due to the coronavirus outbreak and recent market volatility (Chart 2). Around 43 percent indicated increased/slower delivery times. Over 54 percent of firms either reported lower levels of employment or expected employment levels to decline, and more than 57 percent reported their outlook for capital expenditures for 2020 had declined or spending plans had been put on hold. Nearly 39 percent of contacts faced delayed payments from customers and 63 percent had concerns about cash availability (Chart 3). In response to coronavirus, 94 percent of firms reported instituting protective measures at their facilities (e.g. hand sanitizer, etc.), approximately 74 percent of firms had restricted business travel, and 25 percent indicated they had altered healthcare policies due to the coronavirus outbreak.

Selected Services Comments

“Currently closed to public, thus no business, which is tolerable in the short-term, but would be problematic long-term.”

“With customers staying at home we have no sales. This may force us to shut down temporarily.”

“We need access to cash fast... business has dropped 95% in the last 4 days.”

“(Business activity) has dropped to basically zero. Until schools reopen we are going to greatly suffer. We have tremendous uncertainty - how long will this last - 1 month - 2 months - 6 months - it will bankrupt us eventually if it is prolonged.”

“We will need real information and guidance on how long this will last. One month is one thing - until August... well that is a death sentence for us.”

“If small business does not get rent and real estate tax relief we will all go out of business.”

“Hourly employees are worried about pay continuing... planning to retain full time employees if sales hold.”

“Many employees will be laid off or not able to go to work.”

“Loss of effective supply chain responsiveness especially on critical chemicals... Many of the cleaning chemicals have been bought by the public.”

“Significantly below breakeven revenues... government shutdown of restaurants and bars affects all of tourism.”

“If we can get enough cash to make it through the next six weeks we will be in great shape. I don't have enough cash to pay people who aren't working because of quarantine, sick, or fear. I need certainty about how to handle them. I don't want to lose them, but I also don't want them working.”

“We are struggling to keep our stores staffed as parents stay home with children or we ask workers who have been exposed to the virus to stay home.”

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

	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				-17	-16				-4				-24	-30
General Revenue/Sales	26	25	49	-22	-17	40	16	44	-4	26	20	54	-29	-34
Number of Employees	19	49	33	-14	-15	29	36	36	-7	19	40	41	-23	-31
Employee Hours Worked	20	41	39	-19	-19	31	34	34	-3	20	36	44	-24	-32
Part-Time/Temporary Employment	13	52	35	-22	-24	19	52	29	-10	13	59	28	-14	-15
Wages and Benefits	21	56	24	-3	1	54	22	24	31	24	42	34	-10	-10
Inventory Levels	19	52	28	-9	-14	27	48	25	1	16	54	30	-13	-18
Credit Conditions/Access to Credit	4	88	7	-3	-2	9	83	9	0	7	70	23	-16	-14
Capital Expenditures	13	60	27	-14	-12	19	49	33	-14	13	43	44	-31	-33
Input Prices	25	65	10	14	17	53	35	12	41	25	55	19	6	7
Selling Prices	14	69	17	-3	-4	42	38	20	22	16	57	26	-10	-12

*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 March survey was open for a five-day period from March 18-23, 2020 and included 71 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Index vs. a Month Ago

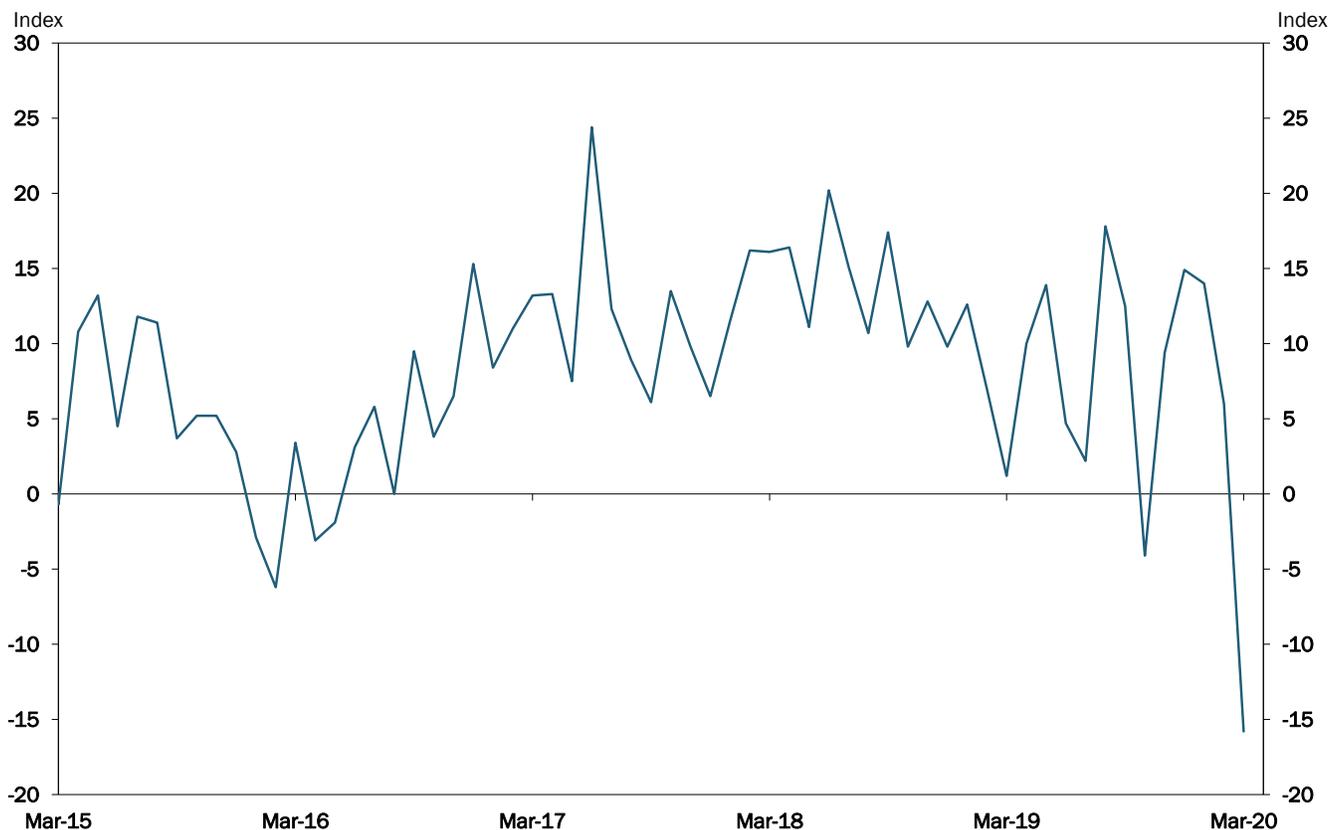


Chart 2. Special Question: How has the Coronavirus (COVID-19) outbreak and recent market volatility changed your firm's outlook in the following key areas for 2020?

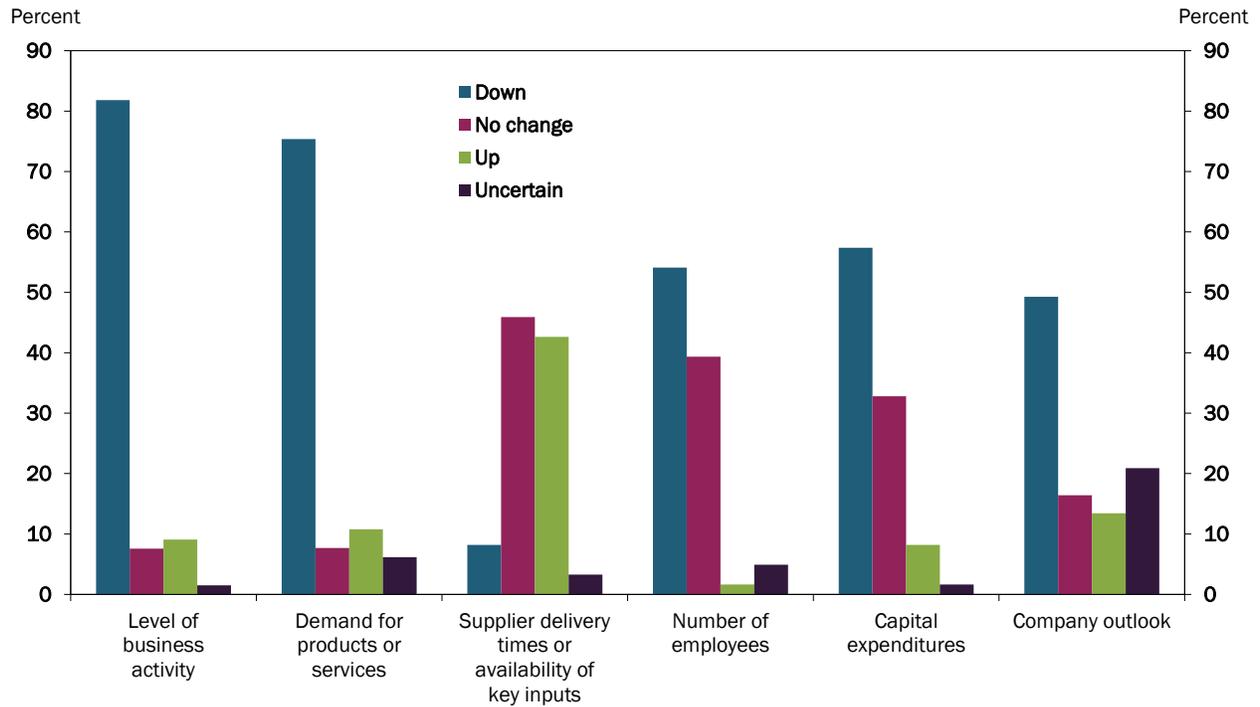


Chart 3. Special Question: What financial stressors are you facing (if any) in the wake of Coronavirus (COVID-19) and recent market volatility?

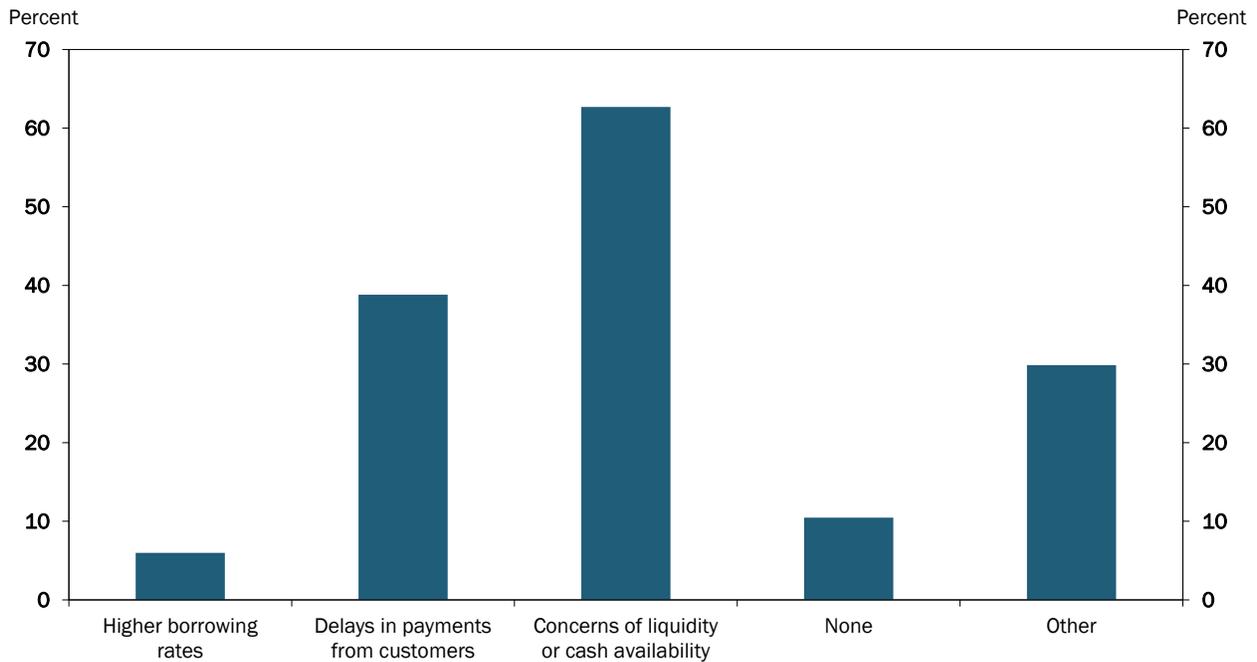


Table 2
Historical Services Survey Indexes

	Mar'19	Apr'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	Oct'19	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20
Versus a Month Ago (seasonally adjusted)													
Composite Index	1	10	14	5	2	18	13	-4	9	15	14	6	-16
General revenue/sales	1	11	18	7	3	34	22	-6	14	19	16	7	-17
Number of employees	-3	13	5	0	3	2	7	-1	6	18	13	6	-15
Employee hours worked	-3	22	14	2	8	7	15	1	5	10	4	18	-19
Part-time/temporary employment	10	8	10	11	8	2	3	7	9	15	6	12	-24
Wages and benefits	31	24	23	26	24	21	27	20	22	28	29	34	1
Inventory levels	8	3	17	6	-1	1	-3	-4	3	0	9	3	-14
Credit conditions/access to credit	-5	0	0	0	1	2	1	2	3	2	2	-1	-2
Capital expenditures	27	17	21	5	13	16	29	6	14	9	15	8	-12
Input prices	38	38	33	29	33	28	33	23	32	26	33	22	17
Selling prices	13	9	10	5	9	0	22	8	16	15	22	20	-4
Versus a Year Ago (not seasonally adjusted)													
Composite Index	21	17	29	12	17	15	26	21	31	25	20	20	-4
General revenue/sales	21	16	38	19	17	19	36	26	40	37	26	28	-4
Number of employees	18	24	20	-3	18	10	23	21	30	23	16	17	-7
Employee hours worked	15	22	20	-1	22	21	24	13	28	17	22	23	-3
Part-time/temporary employment	13	3	8	4	12	5	11	11	9	8	13	11	-10
Wages and benefits	63	60	63	48	59	56	70	64	68	61	58	65	31
Inventory levels	24	11	21	16	16	11	6	6	9	0	11	4	1
Credit conditions/access to credit	-6	4	2	7	-3	1	-3	4	11	8	4	-3	0
Capital expenditures	29	22	30	15	21	22	31	21	22	23	15	10	-14
Input prices	56	56	56	45	52	45	52	46	57	57	53	55	41
Selling prices	38	24	40	25	29	27	36	31	39	30	32	37	22
Expected in Six Months (seasonally adjusted)													
Composite Index	23	17	25	18	16	18	17	20	30	15	28	23	-30
General revenue/sales	32	22	40	26	25	27	27	30	44	19	34	30	-34
Number of employees	16	16	16	15	13	11	16	11	21	15	27	17	-31
Employee hours worked	16	15	19	12	10	8	12	1	15	7	26	15	-32
Part-time/temporary employment	11	2	11	5	1	-4	7	8	7	3	15	15	-15
Wages and benefits	46	43	46	34	43	43	48	45	49	45	56	51	-10
Inventory levels	10	5	3	1	-3	4	-6	6	6	4	15	14	-18
Credit conditions/access to credit	-3	2	7	6	-2	4	3	2	9	3	5	0	-14
Capital expenditures	22	16	35	13	13	14	8	14	26	13	19	1	-33
Input prices	52	48	45	43	46	43	42	43	45	50	54	46	7
Selling prices	36	33	29	28	24	26	31	25	32	28	32	23	-12