



NEWS RELEASE

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Tenth District Services Activity Expanded in October
Federal Reserve Bank of Kansas City Releases October Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the October 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 in October but remained below year-ago levels, while expectations for future activity remained positive.

“Regional services activity rose slightly in October,” said Wilkerson. “60% of firms reported employment was at or above pre-COVID levels and most other firms expected employment levels to fully rebound by the end of 2021.”

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.

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TENTH DISTRICT SERVICES SUMMARY

Tenth District services activity expanded in October but remained below year-ago levels, while expectations for future activity remained positive (Chart 1 & Table 1). The indexes for input and selling prices rose faster in October. Firms expected input and selling prices to increase further in the next six months.

Business Activity Expanded

The month-over-month services composite index was 12 in October, up from -7 in September, but lower than 20 in August (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. All the month-over-month indexes were positive in October, indicating expansion. The general revenue and sales index rebounded considerably, driven by more wholesale, retail, real estate, and health services activity. The inventory index rose back into positive territory, and the indexes for employment, employee hours, part-time employment, and wages and benefits increased again in October. Additionally, the access to credit and capital expenditures expanded slightly. Year-over-year indexes were slightly less negative in October, as the year-over-year composite moved from -23 to -19. Expectations for future services activity remained positive in October, but the future composite index pace of growth slowed somewhat from 19 to 7.

Special Questions

This month contacts were asked special questions about how business indicators compare to pre-COVID levels, as well as expectations for post-COVID. Around 60% of contacts indicated employment levels were already even with or exceeding pre-COVID levels, and 24% expected employment levels to fully rebound by the end of 2021 (Chart 2). Over 45% of firms said sales and revenue levels were at or above pre-COVID levels, though a significant share expected sales to take a long while to increase. Nearly 55% of firms reported capital spending was at or above pre-COVID levels, but 20% didn't expect it to match pre-COVID levels until 2022 or 2023. Businesses were also asked about long-term business changes after the risks from the pandemic dissipate (Chart 3). More than half of firms expected less travel, and a third of firms expected enhanced work-from home policies for at least some staff or permanent scheduling changes moving forward. Additionally, 27% expected continual workforce health screenings, and a quarter of firms expected to move towards on-line business.

Selected Services Comments

“We rebounded much quicker than expected. 3rd quarter 2020 sales rebounded to 2019 levels.”

“We are fully staffing our retail stores and are adding new stores to the network on an ongoing basis.”

“Our company has transitioned almost entirely to online and virtual processes. We are seriously considering reducing the amount of office space we need.”

“Our business has returned to "almost normal" levels.”

“Single family home permits and sales are up strongly.”

“Business is surprisingly good. We are having our best service and parts sales year ever.”

“I worry about finding staff after pandemic, many people in our industry have found other careers, since aid was not available or not adequate for many of my employees.”

“Some staff won't come back until after there is a vaccine.”

“Our corporate travel patterns will be permanently reduced, and a percentage of our corporate staff will continue to work remotely...maybe +/- 20%.”

“We are pushing hard to increase technology to permanently reduce headcount.”

“Our footprint will be smaller, but we anticipate higher profit % from cutting back under-performing areas.”

“Shift to ecommerce seems permanent as does less need to travel for business.”

“Increased profitability during the last 7 months has accelerated capital spending.”

“Capital spending will be constrained until we are certain that we need new equipment and have the sales to support the investment.”

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

	October vs. September (percent)*					October 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				4	12				-19				9	7	
General Revenue/Sales	39	27	33	6	17	40	4	56	-16	48	20	33	15	14	
Number of Employees	21	61	18	2	7	22	28	51	-29	28	48	24	4	0	
Employee Hours Worked	21	59	21	0	11	21	44	35	-13	27	49	24	2	0	
Part-Time/Temporary Employment	7	85	8	-1	3	12	67	20	-8	11	77	12	-1	-6	
Wages and Benefits	27	65	8	19	18	57	27	16	41	40	49	11	29	21	
Inventory Levels	19	65	16	2	8	24	41	34	-10	22	55	23	-1	-2	
Credit Conditions/Access to Credit	5	93	2	2	2	11	79	11	0	8	88	4	5	4	
Capital Expenditures	17	70	13	5	3	29	45	26	2	20	60	20	0	-4	
Input Prices	35	61	4	31	34	59	28	12	47	51	42	7	43	44	
Selling Prices	29	60	11	17	25	46	33	22	24	41	45	14	27	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-13.

Note: The October survey was open for a five-day period from October 14-19, 2020 and included 87 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes



Chart 2. Special Question: When does your firm expect employment, sales/revenue, and capital spending to return to pre-COVID levels?

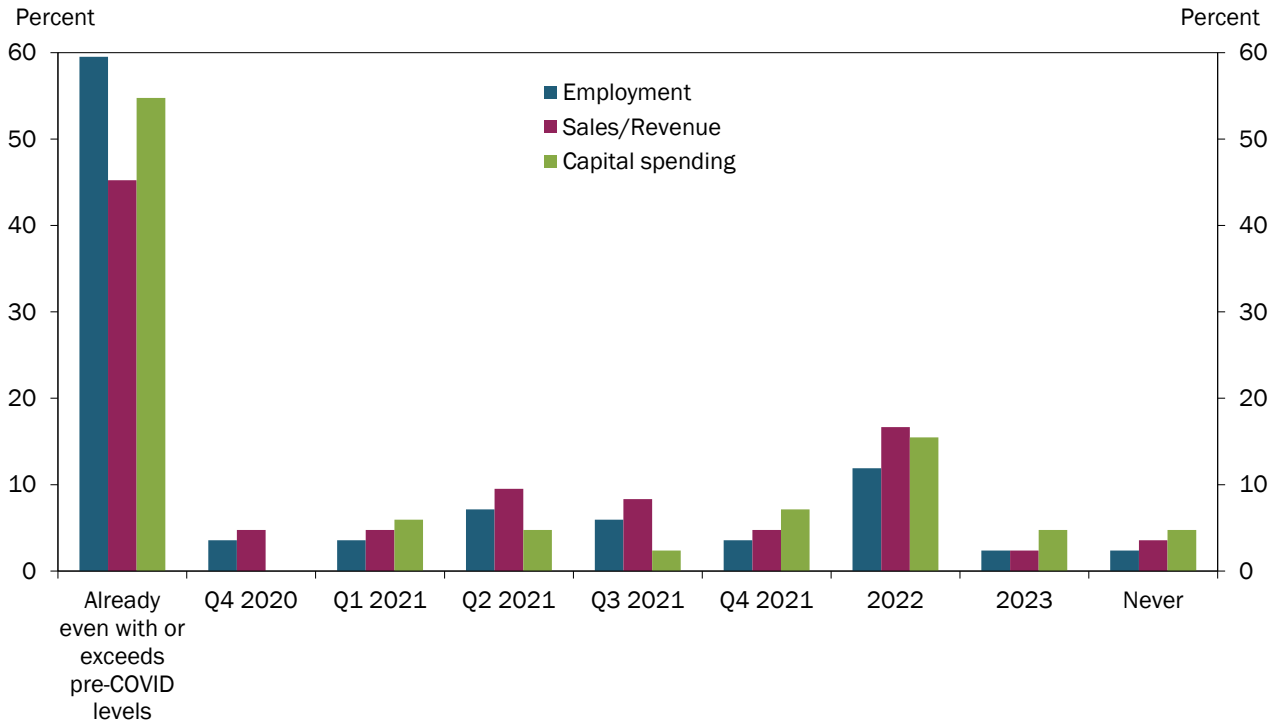


Chart 3. Special Question: What longer-term changes do you expect for your business after risks from the pandemic dissipate? (check all that apply)

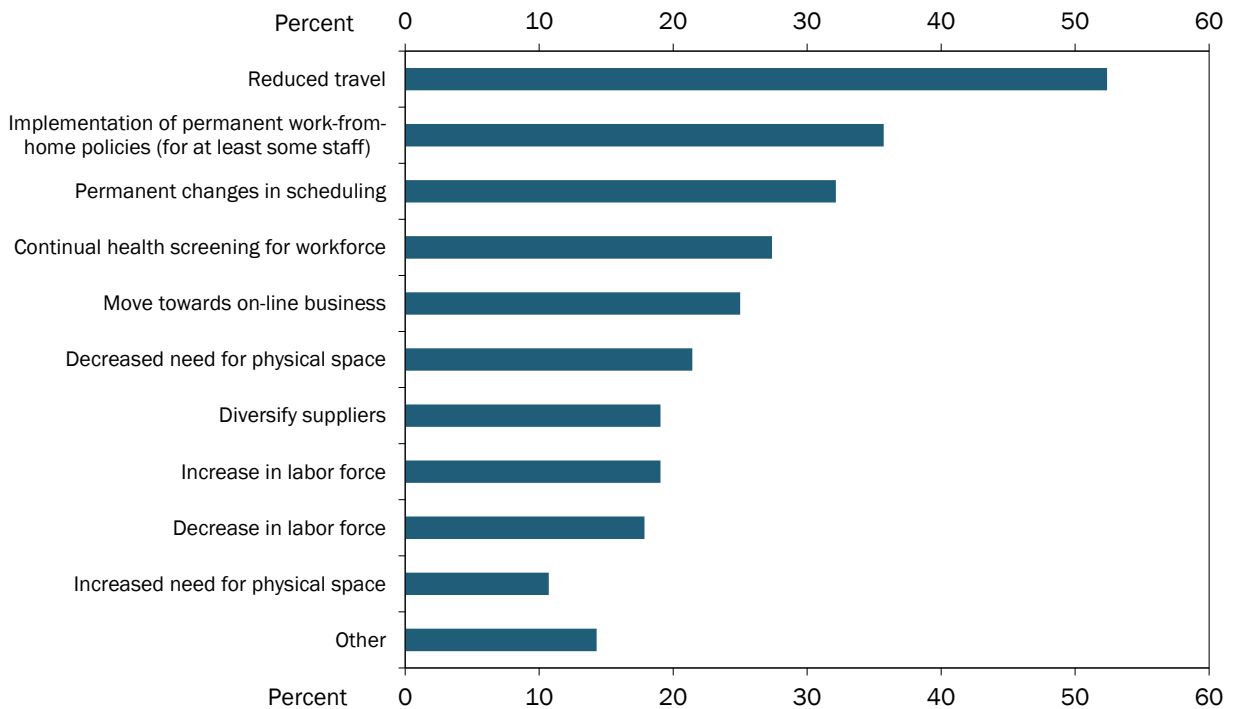


Table 2
Historical Services Survey Indexes

	Oct'19	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Sep'20	Oct'20
Versus a Month Ago (seasonally adjusted)													
Composite Index	-4	9	15	14	6	-16	-58	-21	3	20	20	-7	12
General Revenue/Sales	-6	14	19	16	7	-17	-81	-21	12	37	37	-18	17
Number of Employees	-1	6	18	13	6	-15	-42	-19	2	12	10	9	7
Employee Hours Worked	1	5	10	4	18	-19	-69	-31	2	15	20	6	11
Part-Time/Temporary Employment	7	9	15	6	12	-24	-37	-25	-10	1	5	0	3
Wages and Benefits	20	22	28	29	34	1	-22	-6	10	16	30	19	18
Inventory Levels	-4	3	0	9	3	-14	-22	-25	-20	-9	-9	-3	8
Credit Conditions/Access to Credit	2	3	2	2	-1	-2	-4	-4	-7	-3	-4	1	2
Capital Expenditures	6	14	9	15	8	-12	-33	-25	-13	3	17	10	3
Input Prices	23	32	26	33	22	17	-3	13	39	30	37	29	34
Selling Prices	8	16	15	22	20	-4	-34	-15	9	13	16	15	25
Versus a Year Ago (not seasonally adjusted)													
Composite Index	21	31	25	20	20	-4	-46	-41	-32	-20	-24	-23	-19
General revenue/sales	26	40	37	26	28	-4	-58	-53	-40	-13	-24	-21	-16
Number of employees	21	30	23	16	17	-7	-42	-28	-16	-31	-22	-18	-29
Employee hours worked	13	28	17	22	23	-3	-55	-44	-30	-29	-22	-19	-13
Part-time/temporary employment	11	9	8	13	11	-10	-25	-26	-18	-20	-14	-10	-8
Wages and benefits	64	68	61	58	65	31	12	8	30	31	31	41	41
Inventory levels	6	9	0	11	4	1	-20	-31	-38	-22	-26	-33	-10
Credit conditions/access to credit	4	11	8	4	-3	0	-3	-10	-8	-12	-12	-1	0
Capital expenditures	21	22	23	15	10	-14	-29	-31	-22	-10	8	-7	2
Input prices	46	57	57	53	55	41	14	22	46	38	37	49	47
Selling prices	31	39	30	32	37	22	-19	1	14	20	22	33	24
Expected in Six Months (seasonally adjusted)													
Composite Index	20	30	15	28	23	-30	-28	-2	9	-2	11	19	7
General revenue/sales	30	44	19	34	30	-34	-36	-1	14	1	17	30	14
Number of employees	11	21	15	27	17	-31	-23	0	9	-4	10	10	0
Employee hours worked	1	15	7	26	15	-32	-26	-9	12	3	12	3	0
Part-time/temporary employment	8	7	3	15	15	-15	-5	5	11	-1	-4	-6	-6
Wages and benefits	45	49	45	56	51	-10	6	20	29	32	27	32	21
Inventory levels	6	6	4	15	14	-18	-13	-9	-5	-6	-2	4	-2
Credit conditions/access to credit	2	9	3	5	0	-14	-6	1	1	-4	-5	4	4
Capital expenditures	14	26	13	19	1	-33	-30	-21	-7	-10	9	4	-4
Input prices	43	45	50	54	46	7	0	23	45	32	33	38	44
Selling prices	25	32	28	32	23	-12	-16	10	18	17	24	13	27