



NEWS RELEASE

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Tenth District Services Activity Increased Considerably
Federal Reserve Bank of Kansas City Releases July Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the July 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 increased considerably in July, but remained lower than a year ago while expectations for future activity declined slightly.

“In July, services activity rose solidly compared to previous months, but remained below year-ago levels,” said Wilkerson. “Meanwhile, over a third of businesses reported higher business costs over the past 6 months, and expectations for future activity fell slightly”

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 increased considerably in July, but remained lower than a year ago while expectations from a year ago declined slightly (Chart 1 & Table 1). The indexes for input and selling prices continued to expand in July. Firms expected both input and selling prices to increase over the next six months.

Business Activity Increased Considerably in July

The month-over-month services composite index was 20 in July, up significantly from 3 in June and -21 in May (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. Month-over-month indexes were largely higher in July. General revenue and sales jumped, and the indexes for employment, employee hours, and wages and benefits indexes expanded further. The part-time employment and capital expenditures indexes rose into positive territory in July after declining in previous months. However, the month-over-month indexes for inventory and access to credit continued to decline. The increase in the general revenue/sales index was driven by more activity for retail, travel and tourism, transportation, health services, and real estate, while restaurant activity declined. On the other hand, most year-over-year indexes remained negative in July, though the year-over-year composite index rose from -32 to -20. Expectations for future services activity dipped, slowing from 9 in June to -2 in July.

Special Questions

This month contacts were asked special questions about changes in business costs and their need for physical infrastructure since managing the effects of COVID-19. 65% of contacts reported that their need for physical infrastructure had not changed in the past 6 months, while 30% said it had decreased (Chart 2). Moving forward, 65% anticipated that their need for physical infrastructure would not change in the medium term (1-2 years). Additionally, 67% of contacts said they had utilized a work from home policy in the last 6 months, but only a small share reported that a portion of their workforce will now permanently work from home. In terms of business costs, 39% reported no change in their costs in the past 6 months, 36% of firms reported increases, and 25% reported decreases (Chart 3).

Selected Services Comments

“For us, the PPP was a great program and a lifesaver. We downsized some but without the PPP we would have cut a lot deeper.”

“We have reduced staff and with the reduced revenues, PPP is what is keeping our nose above the water.”

“Safety for my employees is my #1 priority. I will absorb short term losses to make sure I am staffed when business does return - though we are a year or so away from our new normal. PPP dollars were a blessing, not only for the short term, but long term.”

“As a small business we are only still open thanks to the PPP loan; the additional unemployment benefits have decreased willingness to work and/or to work for the wages we pay.”

“The additional unemployment benefits have been problematic. We've had a number of applicants fill out applications and not show up for their interviews.”

“Need oil demand to pick up.”

“It is rough. Sales are down, costs are steady and we received no assistance of any kind.”

“Most cost [increases] are tied to employees and we have slightly increased headcount over last 6 months. Other expenses tied to travel and marketing have decreased due to the pandemic.”

“Wages and costs of supplies are up. PPE costs are up as well as the usage.”

“Costs decreased: there is no travel to meetings for employees.”

“We are expecting the stimulus to either go away, expire or to be much more limited moving forward. We expect that this will soften business. If schools do not reopen fully, up to 20% of our workforce will be negatively affected as reduced hours of productivity occur each week.”

“COVID risks are very real in that customers may or may not feel safe and thus it is very difficult to predict sales.”

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

	July vs. June (percent)*					July 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				23	20				-20				-9	-2	
General Revenue/Sales	61	23	17	44	37	39	9	52	-13	39	15	46	-7	1	
Number of Employees	29	51	20	9	12	20	29	51	-31	26	39	35	-9	-4	
Employee Hours Worked	32	56	12	20	15	16	38	46	-29	28	40	32	-4	3	
Part-Time/Temporary Employment	14	74	12	2	1	10	61	30	-20	19	60	21	-2	-1	
Wages and Benefits	25	67	8	16	16	50	31	19	31	38	51	11	27	32	
Inventory Levels	16	59	25	-9	-9	17	43	40	-22	14	59	27	-14	-6	
Credit Conditions/Access to Credit	5	89	6	-1	-3	5	79	16	-12	5	87	8	-4	-4	
Capital Expenditures	20	65	14	6	3	21	48	31	-10	18	51	31	-13	-10	
Input Prices	38	55	7	31	30	50	38	12	38	39	50	11	29	32	
Selling Prices	30	59	11	19	13	42	36	22	20	25	58	17	8	17	

*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 July survey was open for a five-day period from July 15-20, 2020 and included 85 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Index vs. a Month Ago

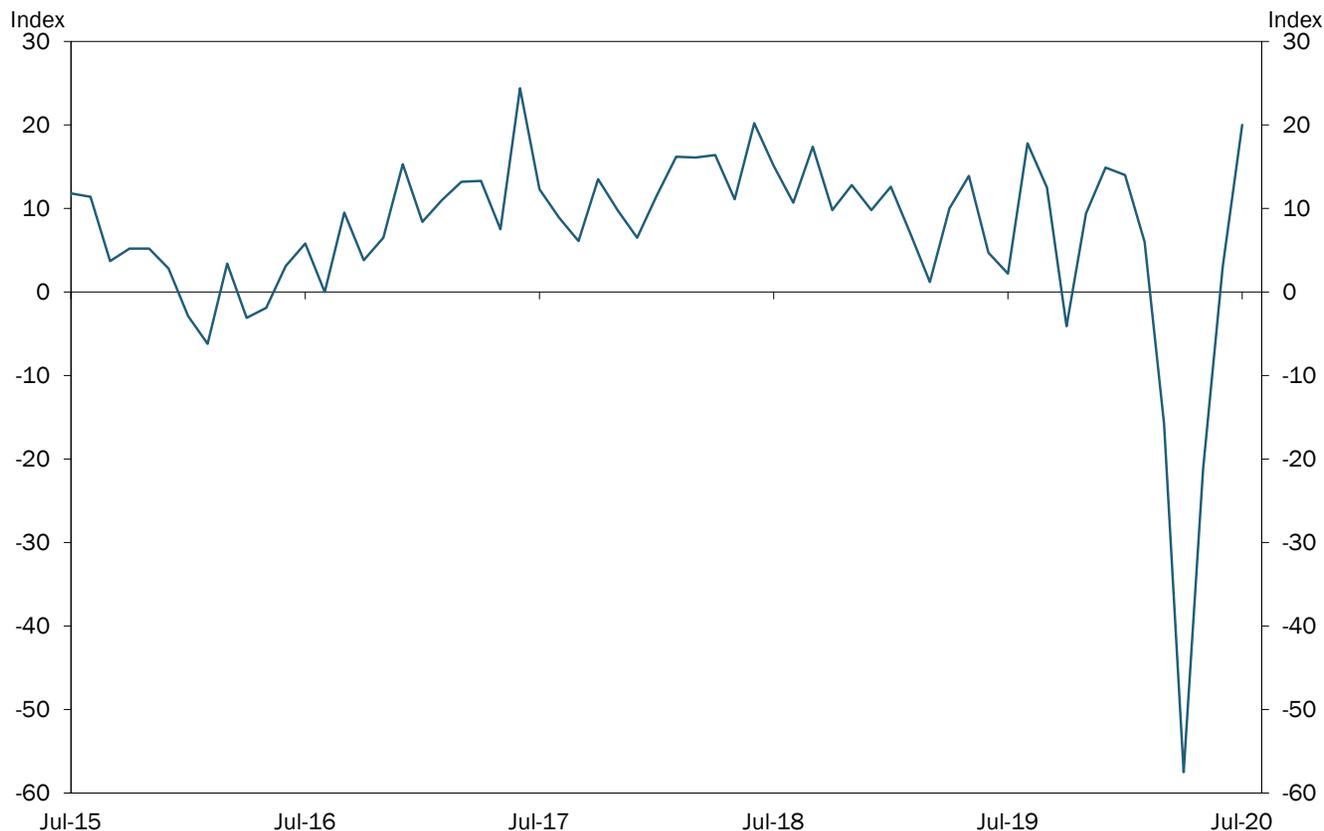


Chart 2. Special Question: How has your need for office space or physical infrastructure (e.g., real estate, office space, etc.) changed in the last 6 months and how do you anticipate it will change over the medium term (1-2 years)?

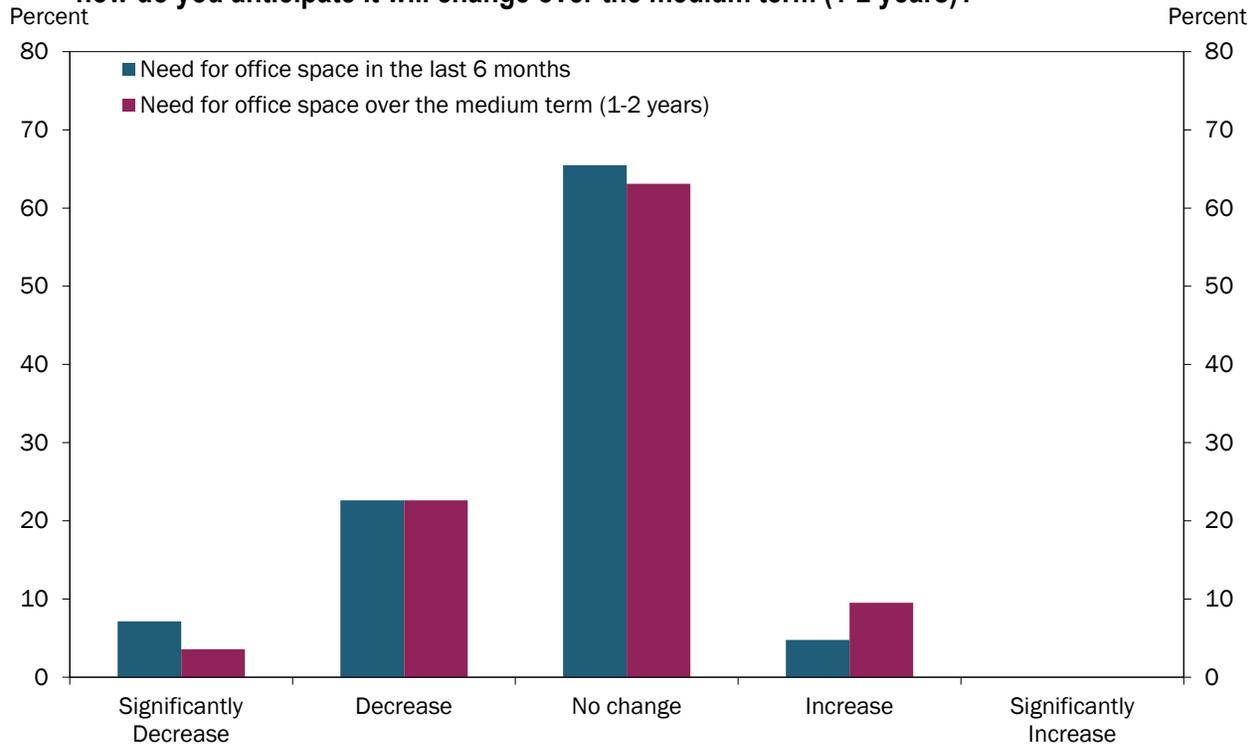


Chart 3. Special Question: How have your business costs changed in the last 6 months?

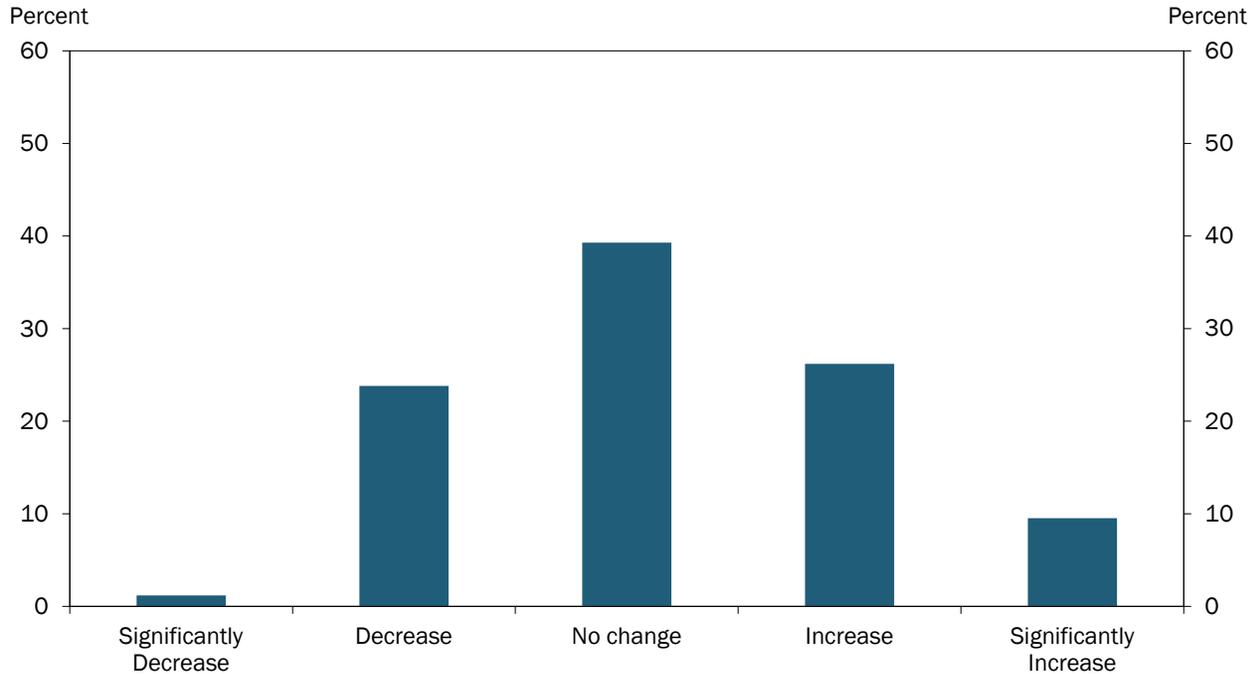


Table 2
Historical Services Survey Indexes

	Jul'19	Aug'19	Sep'19	Oct'19	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20	Apr'20	May'20	Jun'20	Jul'20
Versus a Month Ago (seasonally adjusted)													
Composite Index	2	18	13	-4	9	15	14	6	-16	-58	-21	3	20
General Revenue/Sales	3	34	22	-6	14	19	16	7	-17	-81	-21	12	37
Number of Employees	3	2	7	-1	6	18	13	6	-15	-42	-19	2	12
Employee Hours Worked	8	7	15	1	5	10	4	18	-19	-69	-31	2	15
Part-Time/Temporary Employment	8	2	3	7	9	15	6	12	-24	-37	-25	-10	1
Wages and Benefits	24	21	27	20	22	28	29	34	1	-22	-6	10	16
Inventory Levels	-1	1	-3	-4	3	0	9	3	-14	-22	-25	-20	-9
Credit Conditions/Access to Credit	1	2	1	2	3	2	2	-1	-2	-4	-4	-7	-3
Capital Expenditures	13	16	29	6	14	9	15	8	-12	-33	-25	-13	3
Input Prices	33	28	33	23	32	26	33	22	17	-3	13	39	30
Selling Prices	9	0	22	8	16	15	22	20	-4	-34	-15	9	13
Versus a Year Ago (not seasonally adjusted)													
Composite Index	17	15	26	21	31	25	20	20	-4	-46	-41	-32	-20
General revenue/sales	17	19	36	26	40	37	26	28	-4	-58	-53	-40	-13
Number of employees	18	10	23	21	30	23	16	17	-7	-42	-28	-16	-31
Employee hours worked	22	21	24	13	28	17	22	23	-3	-55	-44	-30	-29
Part-time/temporary employment	12	5	11	11	9	8	13	11	-10	-25	-26	-18	-20
Wages and benefits	59	56	70	64	68	61	58	65	31	12	8	30	31
Inventory levels	16	11	6	6	9	0	11	4	1	-20	-31	-38	-22
Credit conditions/access to credit	-3	1	-3	4	11	8	4	-3	0	-3	-10	-8	-12
Capital expenditures	21	22	31	21	22	23	15	10	-14	-29	-31	-22	-10
Input prices	52	45	52	46	57	57	53	55	41	14	22	46	38
Selling prices	29	27	36	31	39	30	32	37	22	-19	1	14	20
Expected in Six Months (seasonally adjusted)													
Composite Index	16	18	17	20	30	15	28	23	-30	-28	-2	9	-2
General revenue/sales	25	27	27	30	44	19	34	30	-34	-36	-1	14	1
Number of employees	13	11	16	11	21	15	27	17	-31	-23	0	9	-4
Employee hours worked	10	8	12	1	15	7	26	15	-32	-26	-9	12	3
Part-time/temporary employment	1	-4	7	8	7	3	15	15	-15	-5	5	11	-1
Wages and benefits	43	43	48	45	49	45	56	51	-10	6	20	29	32
Inventory levels	-3	4	-6	6	6	4	15	14	-18	-13	-9	-5	-6
Credit conditions/access to credit	-2	4	3	2	9	3	5	0	-14	-6	1	1	-4
Capital expenditures	13	14	8	14	26	13	19	1	-33	-30	-21	-7	-10
Input prices	46	43	42	43	45	50	54	46	7	0	23	45	32
Selling prices	24	26	31	25	32	28	32	23	-12	-16	10	18	17