



NEWS RELEASE

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Tenth District Services Activity Grew Moderately in February
Federal Reserve Bank of Kansas City Releases February Services Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the February Services Survey today. According to Chad Wilkerson, senior vice president at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District services activity grew moderately in February, and expectations for future activity declined slightly.

“District services activity increased moderately in February, and expectations for future activity declined slightly,” said Wilkerson. “Firms’ sales increased substantially last month, while employment levels held steady.”

A summary of the survey is attached. Historical data, results from past surveys and release dates for future surveys are available at www.kansascityfed.org/surveys/services-survey/.

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 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 grew moderately in February, and expectations for the next six months declined slightly (Chart 1 & Table 1). Input price growth continued to far outpace increases in selling prices, and this trend is expected to continue in future months.

Business Activity Grew Moderately

The month-over-month services composite index was 12 in February, up from -2 in January and -7 in December (Tables 1 & 2). The composite index is a weighted average of the revenue/sales, employment, and inventory indexes. The increase was driven primarily by growth in wholesale, retail, and transportation. Most month-over-month indexes were positive and increased from previous readings. General revenue/sales jumped from -2 to 12 and inventories ticked up from 7 to 11. Employment levels were flat, while employee hours increased and wages and benefits remained expansionary. The year-over-year composite index declined from -7 to -11, as revenues fell further. Capital expenditures expanded modestly and access to credit continued to decrease. Expectations for services activity declined to -3 from 3, as firms anticipate revenues to decrease somewhat and employment to grow slightly.

Special Questions

This month contacts were asked special questions about price pressures and profit margins. Profit margins decreased over the past 3 months for a narrow majority of services firms. 38% of firms reported their margins have decreased slightly while 22% reported a slight increase, 20% reported a slight decrease, and another 20% reported a significant decrease. Expectations for the year ahead are more mixed, with a third of firms anticipating a slight increase, 29% a slight decrease, 21% no change, 15% a significant decrease, and 2% a significant increase (Chart 2). About half of firms reported they are passing through higher costs to customers to maintain their margins, while 40% are also reducing worker hours or overtime and 29% are changing supplier relationships to reduce input prices. Additionally, 11% of firms each are curtailing production or laying off workers, while another 22% have not implemented any of the above strategies to maintain margins (Chart 3).

Selected Services Comments

“As a temporary staffing company, we are finding it difficult to obtain new clients. It appears that the landscape in our area is changing where less businesses are trying to outsource their staffing needs.”

“Looks like the cost environment will keep us from expanding or upgrading equipment for the foreseeable future.”

“Our vehicle wholesale market prices are down along with most of our input prices. Although we have lost income these last 2 years, I feel we will gain these profits back in 2024. Consumer confidence in our market is on the rebound as far as automobile purchases, which is a positive step toward recovery for our business. We are finding it harder to obtain a commercial mortgage for our business expansion, so expansion will need to go to the backburner.”

“Will monitor starting wages of competitors to make sure we are at top end of wage scales in our industry.”

“Everything is slowing, and interest rates are hurting sales and increasing our costs.”

“Some custom builders seem to have more optimism than in the last year. Single Family starts included an increased percentage of homes built for rent.”

Table 1. Summary of Tenth District Services Conditions, February 2024

Plant Level Indicators	February vs. January (percent)*					February 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 ^{^^}
Composite Index				0	12				-11				3	-3
General Revenue/Sales	35	29	36	-1	20	27	22	51	-23	36	27	37	-1	-9
Number of Employees	12	71	16	-4	0	28	39	33	-6	33	42	25	8	5
Employee Hours Worked	21	60	19	1	7	24	42	35	-11	31	46	24	7	0
Part-Time/Temporary Employment	1	84	15	-14	-10	11	73	16	-5	11	71	18	-7	-11
Wages and Benefits	32	62	7	25	25	77	12	11	66	55	38	7	48	53
Inventory Levels	24	61	15	8	11	31	48	21	10	24	56	20	4	1
Credit Conditions/Access to Credit	3	86	11	-8	-12	7	73	21	-14	5	81	14	-8	-11
Capital Expenditures	22	58	21	1	2	36	37	27	8	33	42	25	8	6
Input Prices	46	47	7	39	43	68	24	8	60	65	31	4	61	67
Selling Prices	18	66	16	1	5	52	23	25	27	44	38	18	26	28

*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 February survey was open for a six-day period from February 21-26, 2024 and included 73 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Indexes

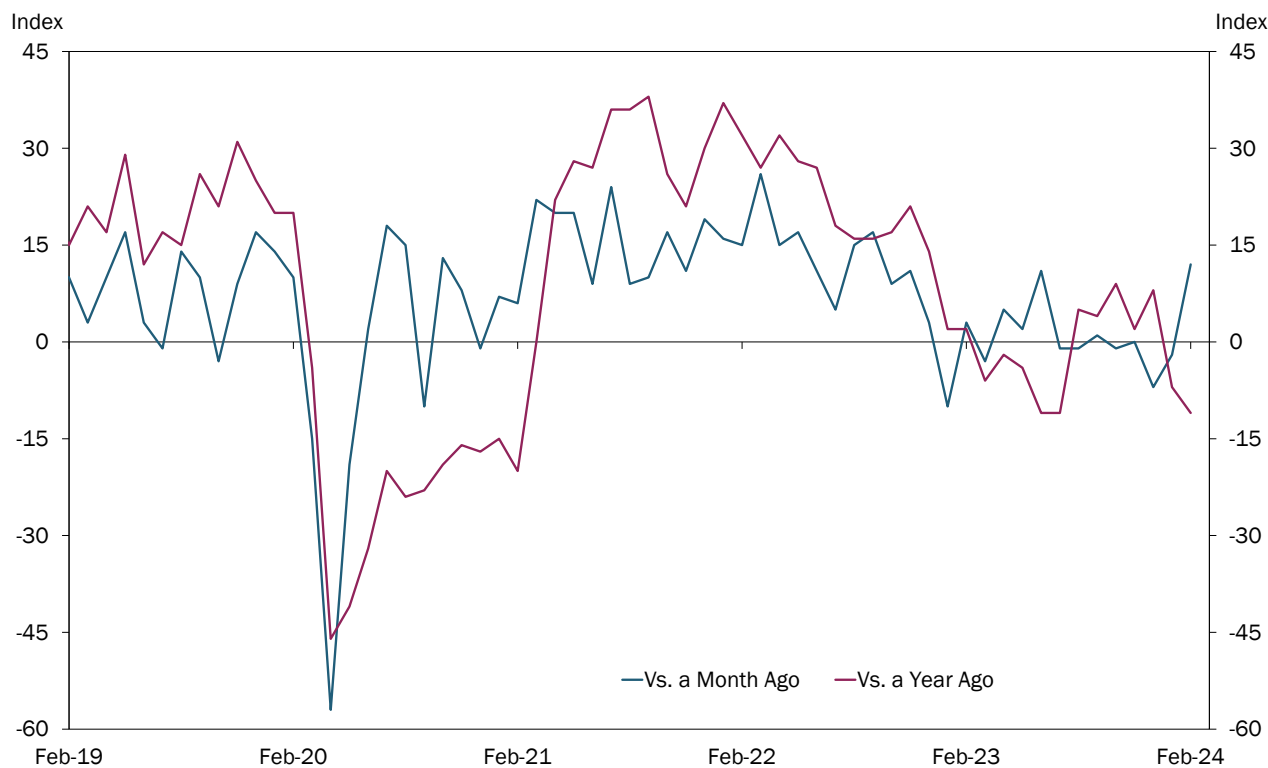


Chart 2. Special Question: Given current price pressures, how have profit margins changed for your firm since the last 3 months and how will they change over the next 12 months?

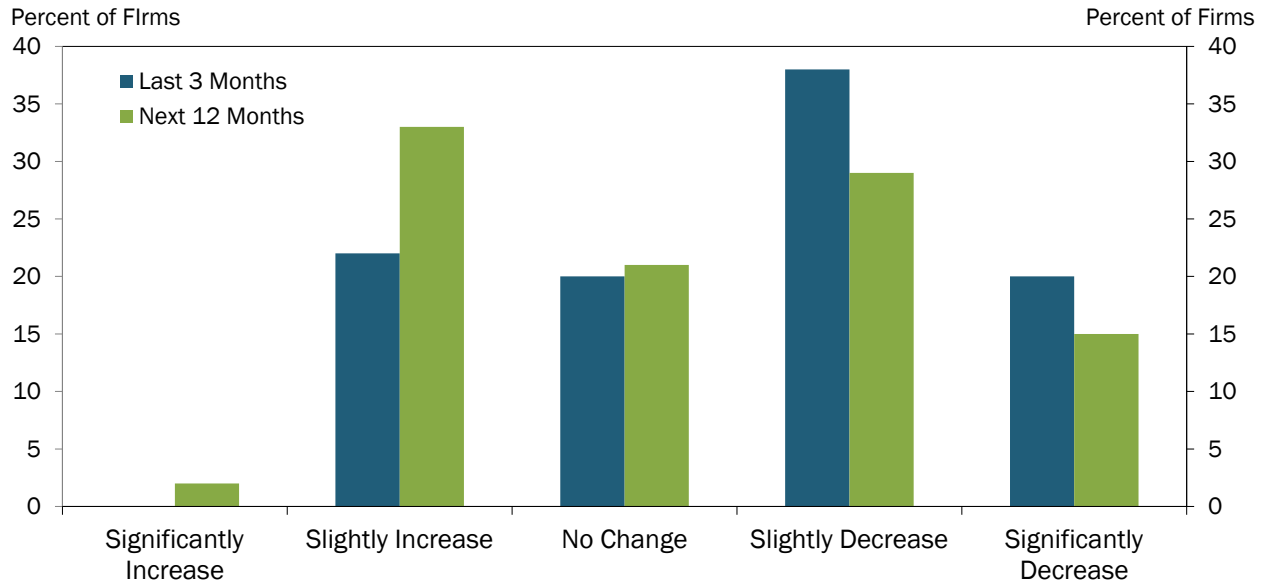


Chart 3. Special Question: Which strategies are you implementing to maintain profit margins? (Choose as many as apply)

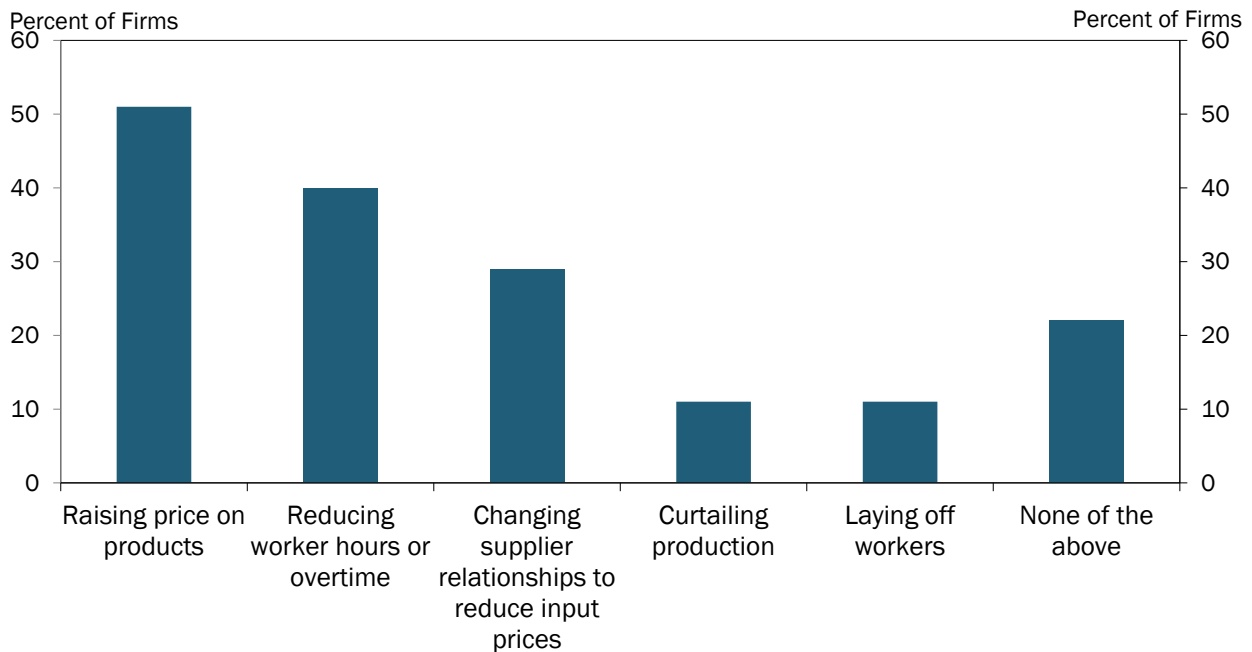


Table 2
Historical Services Survey Indexes

	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24	Feb'24
Versus a Month Ago (seasonally adjusted)													
Composite Index	3	-3	5	2	11	-1	-1	1	-1	0	-7	-2	12
General Revenue/Sales	4	-5	14	2	15	0	-5	2	-3	2	-13	-1	20
Number of Employees	5	-1	-2	2	4	-3	3	-2	4	-2	1	-11	0
Employee Hours Worked	2	-3	11	4	11	-4	-2	0	-1	-1	-9	-4	7
Part-Time/Temporary Employment	-4	-5	-7	1	4	7	-2	-3	-8	-3	-4	-10	-10
Wages and Benefits	30	21	24	17	25	21	20	21	20	19	12	27	25
Inventory Levels	-3	-2	-6	2	9	2	3	5	-4	-2	-4	7	11
Credit Conditions/Access to Credit	1	-5	-13	2	-7	-12	-12	-9	-10	-8	-4	-5	-12
Capital Expenditures	10	13	11	13	15	11	12	9	6	16	11	8	2
Input Prices	40	33	40	30	31	34	34	46	32	36	12	32	43
Selling Prices	11	7	6	10	17	14	0	11	8	12	1	12	5
Versus a Year Ago (not seasonally adjusted)													
Composite Index	2	-6	-2	-4	-11	-11	5	4	9	2	8	-7	-11
General revenue/sales	-2	-9	-9	-16	-17	-18	-2	0	12	-1	7	-9	-23
Number of employees	-2	-10	3	3	-6	-5	9	5	7	4	14	-13	-6
Employee hours worked	0	-3	8	-4	5	-5	3	-1	16	11	13	-11	-11
Part-time/temporary employment	-4	-4	-5	3	-8	2	3	1	-4	-3	3	-9	-5
Wages and benefits	74	65	61	68	70	68	57	74	70	68	63	57	66
Inventory levels	17	6	8	14	-2	-2	16	14	4	7	1	6	10
Credit conditions/access to credit	4	-10	-8	-3	-9	-17	-22	-12	-19	-10	-9	-10	-14
Capital expenditures	19	14	20	24	14	13	17	13	7	18	20	2	8
Input prices	70	69	67	48	65	62	50	71	72	65	56	55	60
Selling prices	43	29	30	37	28	34	22	35	38	40	39	31	27
Expected in Six Months (seasonally adjusted)													
Composite Index	11	3	12	6	-2	4	5	4	6	12	-1	3	-3
General revenue/sales	16	6	17	4	1	8	3	6	13	21	-1	3	-9
Number of employees	8	-1	14	9	-3	3	9	1	3	5	2	4	5
Employee hours worked	12	3	8	5	5	5	3	3	8	8	5	-5	0
Part-time/temporary employment	-1	3	-1	-1	-2	2	3	0	1	2	-2	-1	-11
Wages and benefits	56	52	51	41	50	46	44	46	52	45	28	38	53
Inventory levels	2	2	-2	4	-6	-3	2	4	-5	2	-3	1	1
Credit conditions/access to credit	-3	-5	-13	-5	-6	-14	-14	-10	-15	-8	-2	-11	-11
Capital expenditures	16	21	15	11	15	15	13	10	13	18	8	9	6
Input prices	61	61	59	44	51	52	49	53	43	56	34	53	67
Selling prices	33	32	19	22	28	25	26	25	31	32	24	27	28