



NEWS RELEASE

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Tenth District Services Activity Increased

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 increased in August, and expectations for future growth expanded.

“Regional services activity rebounded somewhat in August after a sluggish June and July,” said Wilkerson. “While over 57 percent of contacts expect negative impacts from the most recent announcements of U.S. tariffs on Chinese goods, future expectations for growth also expanded.”

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 survey includes five years of 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 in August, and expectations for future growth expanded (Chart 1). Most input and selling price indexes eased down somewhat, with month-over-month selling prices turning negative for the first time since October 2016. However, expectations for future selling prices rose in August.

Business Increased in August

The month-over-month services composite index was 17 in August, up from -1 in July and 1 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 somewhat mixed in August, but mostly positive. The general revenue/sales index rebounded substantially and the capital expenditures index expanded, while the employment and wages and benefits indexes edged lower. The jump in general revenue/sales index was driven by increases in transportation, restaurants, professional and business activity, and other services. Year-over-year services indexes dipped slightly compared to last month. Compared with a year ago, the services composite index inched down from 17 to 15. Expectations for the services composite index rose from 14 to 18 as the future revenue/sales, inventory, capital expenditures, and access to credit indexes increased.

Special Questions

This month contacts were asked special questions about the impact of recent tariff announcements and their expectations regarding the duration of trade tensions. More than 57 percent of business contacts in the Tenth District expect the most recent round of announcements of U.S. tariffs on Chinese goods to negatively impact their business, while less than 3 percent expect a positive impact (Chart 2). Additionally, over 44 percent of firms expect trade tensions to persist for 6-12 months, and nearly 29 percent of firms expect trade tensions to last for 1-2 years (Chart 3). However, 11 percent of contacts expect trade tensions to subside within 6 months, while 16 percent expect trade tensions to last for more than 2 years.

Selected Services Comments

“Consumer confidence seems to be increasing.”

“Low interest rates are helping investment and development deals.”

“Business and demand for cars is still good.”

“There is so much uncertainty it becomes impossible to plan. We are busy but looks like we should start thinking seriously about a recession.”

“The biggest tariff impact is the uncertainty. Our quotes are out for several months and we have no idea what will happen between making a quote and receiving the order.”

“We see a fear from customers willing to make a major buy.”

“Growth has slowed the past 45 days due mostly to the aftermath of flooding in the area. Price increases have waned considerably and the rate of inflation we expect for the products we sell may drop below 2%.”

“Our service area has an agricultural sector that is experiencing an economic downturn. The Ag economy was already sluggish and things are getting worse.”

“We had to raise wages much more than normal to get people in the door in 2018/19. We are above market right now and the pressure has eased.”

“I think that wage rates per hour will continue to go up. Our primary way to increase productivity efficiency will be through getting more done with less people.”

“No available employees.”

“We have cut employees, cut hours, but we must keep the good employees we have from moving.”

“The immigration policies are driving away Hispanic labor that is critical to our industry. The supply of citizens willing to work in construction is small and will require higher wages but will also result in longer build times.”

Table 1. Summary of Tenth District Services Conditions, August 2019

	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				14	17				15				13	18	
General Revenue/Sales	49	31	20	30	33	51	16	32	19	46	29	25	21	28	
Number of Employees	15	68	17	-1	1	35	40	25	10	26	54	19	7	9	
Employee Hours Worked	17	70	13	4	1	34	53	13	21	16	69	15	1	6	
Part-Time/Temporary Employment	13	73	13	0	0	19	67	14	5	13	71	16	-3	-5	
Wages and Benefits	24	73	3	21	19	60	35	4	56	48	46	6	42	43	
Inventory Levels	14	67	19	-4	0	32	47	21	11	18	63	18	0	5	
Credit Conditions/Access to Credit	4	93	3	1	2	9	84	7	1	9	87	4	4	5	
Capital Expenditures	23	69	8	14	16	33	57	10	22	25	60	15	10	12	
Input Prices	27	71	1	26	26	54	37	9	45	48	47	5	44	43	
Selling Prices	19	61	19	0	-1	45	36	19	27	36	48	16	20	25	

*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-12.

Note: The August survey was open for a five-day period from August 14-19, 2019 and included 71 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Index vs. a Month Ago

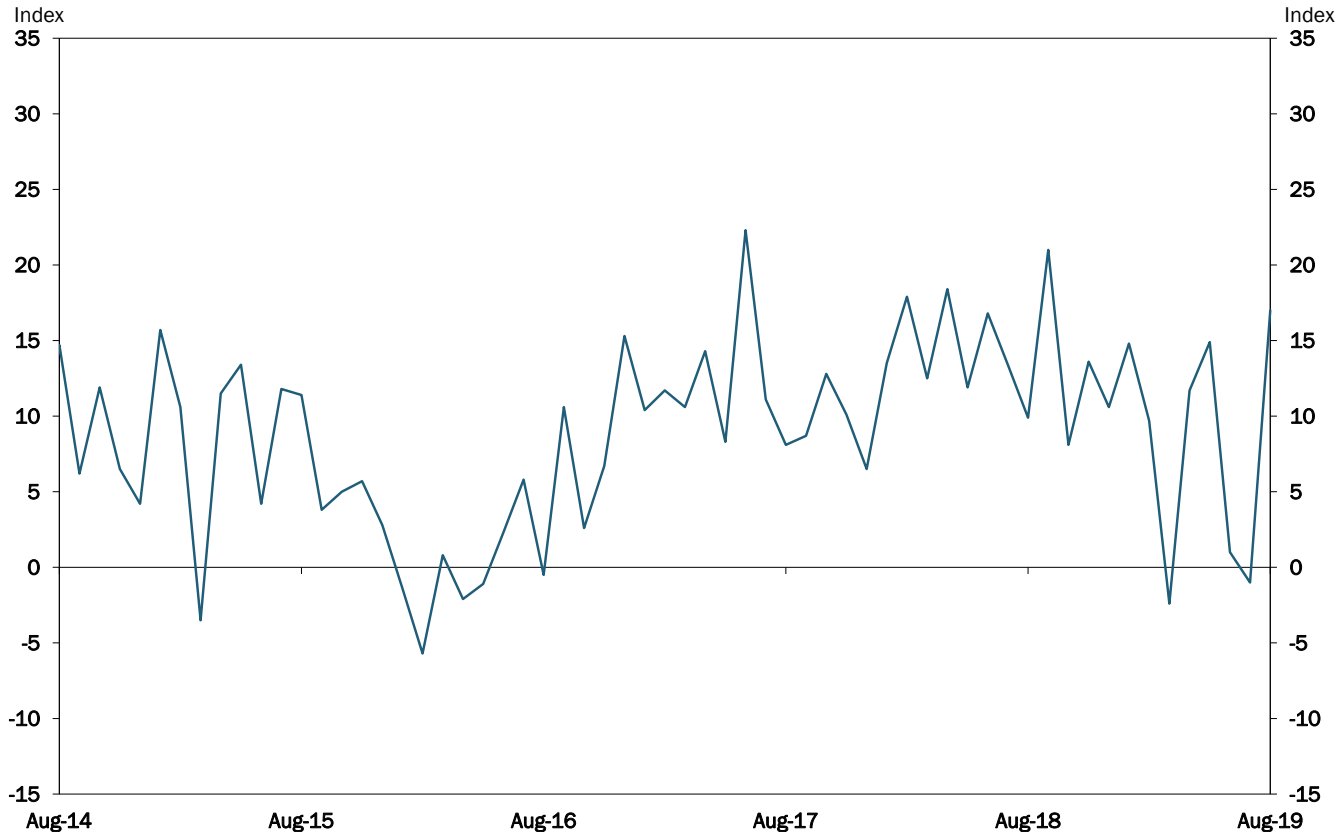


Chart 2. Special Question: How do you expect the most recent round of announcements of U.S. tariffs on Chinese goods will affect your business?

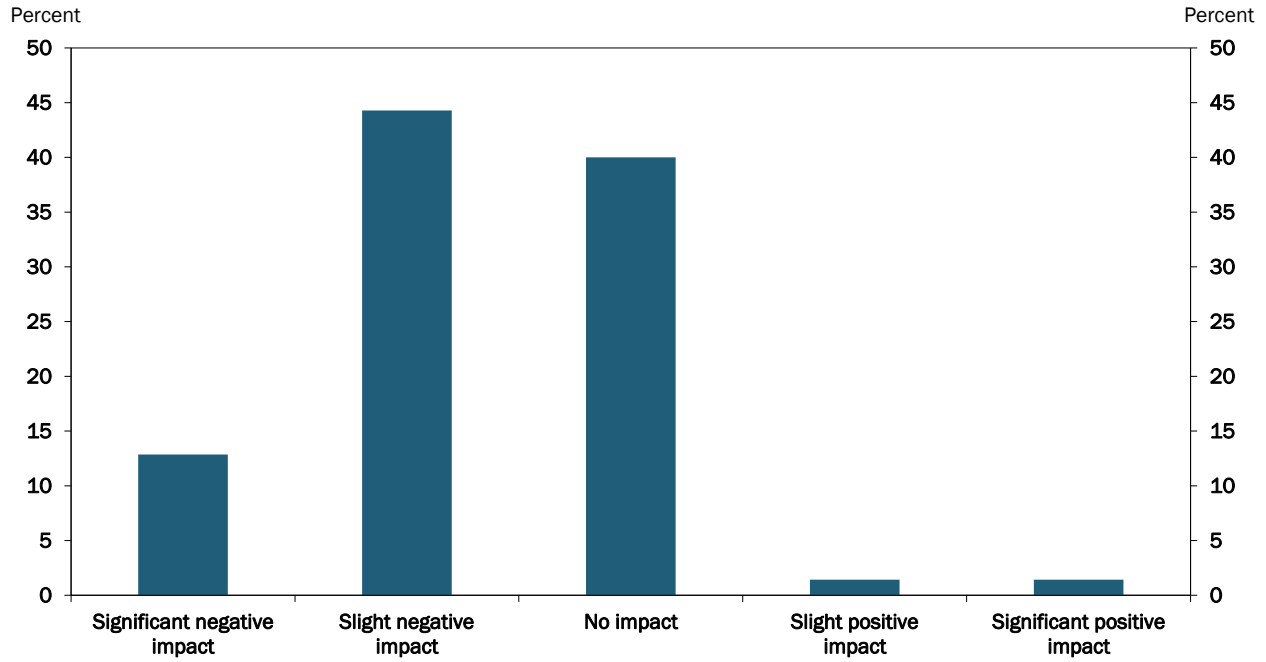


Chart 3. Special Question: How long do you expect trade tensions to persist?

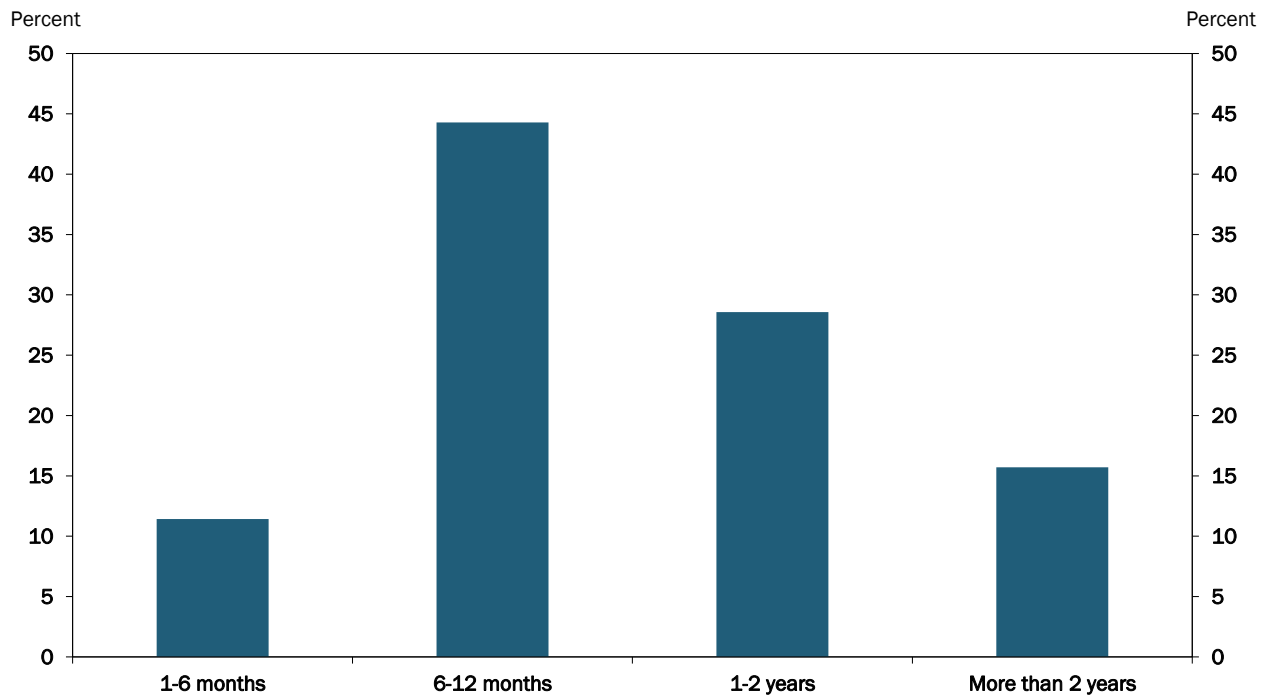


Table 2
Historical Services Survey Indexes

	Aug'18	Sep'18	Oct'18	Nov'18	Dec'18	Jan'19	Feb'19	Mar'19	Apr'19	May'19	Jun'19	Jul'19	Aug'19
Versus a Month Ago (seasonally adjusted)													
Composite Index	10	21	8	14	11	15	10	-2	12	15	1	-1	17
General revenue/sales	16	38	11	18	5	27	20	-6	15	19	-1	-3	33
Number of employees	5	4	6	4	17	7	-5	-4	12	6	-2	3	1
Employee hours worked	1	27	2	12	6	12	3	-3	23	16	-2	7	1
Part-time/temporary employment	-4	10	15	7	6	8	3	11	9	12	12	7	0
Wages and benefits	27	34	31	29	22	34	29	33	24	23	27	23	19
Inventory levels	2	4	4	17	15	-4	6	9	3	18	8	-2	0
Credit conditions/access to credit	-1	-1	2	-6	-6	-6	-1	-6	1	1	1	1	2
Capital expenditures	9	10	15	6	14	14	17	27	18	23	5	12	16
Input prices	33	40	34	38	23	34	46	38	39	32	27	33	26
Selling prices	20	25	15	28	17	14	21	13	8	10	3	8	-1
Versus a Year Ago (not seasonally adjusted)													
Composite Index	25	28	21	27	18	21	15	21	17	29	12	17	15
General revenue/sales	31	41	25	33	23	29	28	21	16	38	19	17	19
Number of employees	24	22	21	20	12	16	7	18	24	20	-3	18	10
Employee hours worked	19	19	20	22	12	13	17	15	22	20	-1	22	21
Part-time/temporary employment	10	5	14	13	10	3	10	13	3	8	4	12	5
Wages and benefits	58	70	62	51	56	60	64	63	60	63	48	59	56
Inventory levels	13	6	9	21	12	9	-4	24	11	21	16	16	11
Credit conditions/access to credit	0	-3	-3	-2	-4	0	1	-6	4	2	7	-3	1
Capital expenditures	23	31	35	22	33	21	16	29	22	30	15	21	22
Input prices	68	63	49	57	45	51	46	56	56	56	45	52	45
Selling prices	47	55	36	42	29	30	37	38	24	40	25	29	27
Expected in Six Months (seasonally adjusted)													
Composite Index	33	32	28	25	25	17	25	23	16	27	17	14	18
General revenue/sales	43	44	39	29	36	31	39	31	20	43	24	23	28
Number of employees	27	22	26	19	18	7	17	19	16	16	15	13	9
Employee hours worked	26	23	20	15	11	10	11	19	17	23	7	11	6
Part-time/temporary employment	9	9	19	14	13	6	11	13	0	12	5	-1	-5
Wages and benefits	46	62	53	38	41	36	42	47	42	45	33	43	43
Inventory levels	17	16	5	22	6	-1	2	11	4	2	0	-6	5
Credit conditions/access to credit	-3	-2	0	-2	-5	-1	6	-4	2	8	7	-2	5
Capital expenditures	22	15	18	19	27	25	28	25	16	37	12	10	12
Input prices	52	53	44	47	37	48	50	54	50	42	42	47	43
Selling prices	33	44	31	38	21	33	39	38	33	28	26	19	25