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Tenth District Services Activity Rose Moderately
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, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District services activity rose moderately, with further growth expected in coming months.

“Services companies in our region reported continued growth in February, though at a slower rate than in January,” said Wilkerson. “Around 38 percent of business contacts said they increased wages more than 4 percent on average in 2018, but nearly three-quarters of contacts still reported difficulties finding workers this month.”

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 rose moderately in February, with further growth expected in coming months (Chart 1). Both the input price and selling price indexes increased over the past month, and price expectations also edged higher.

Business Rose Moderately in February

The month-over-month services composite index was 10 in February, down slightly from 15 in January and 11 in December (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. The general revenue/sales index declined in February due to slower wholesale and retail trade activity, while healthcare services activity expanded. The employment index dipped into negative territory for the first time since mid-2016, while the inventory index rose above zero. Most year-over-year services indexes edged lower. Compared with a year ago, the services composite index dipped from 21 to 15. Expectations for future services activity grew moderately, with the future composite index increasing from 17 to 25.

Special Questions

This month contacts were asked special questions about tightening labor market conditions, specifically worker shortages and wage gains. More than 74 percent of services contacts reported workers were in short supply, and nearly 54 percent indicated they were having to raise wages more than normal to attract or retain employees (Chart 2). On average in 2018, 32 percent of firms reported 2 to 4 percent wage gains, while 38 percent of firms said wage gains were greater than 4 percent (Chart 3). In 2019, respondents overall expect their firms to increase wages at slightly slower rates than in 2018. Approximately 39 percent of firms expecting wage increases of 2 to 4 percent, while another 26 percent of firms expect wage gains of more than 4 percent in 2019.

Selected Services Comments

“We have had demand for our services greater than our capacity for 18 months. Shortage of labor, specifically professional truck drivers, is the constraint that has prevented our firm from growth.”

“Weather has continued to impact construction activity - particularly in late January and February but start of the impact began in November.”

“We opened one new retail store in fall 2018. We will wait to see sales before thinking about another.”

“There are not enough trained employees in the work force for us to hire to continue our growth.”

“Our sector has been consistently growing because of the affordability of Oklahoma real estate and rental rates remaining steady, coupled with low taxes and insurance cost.”

“There is probably one technology worker available for every two jobs. Employers are getting into bidding wars to attract employees.”

“Low unemployment levels make hiring of common labor positions more difficult.”

“We are in short supply of all kinds [of workers], but especially anyone who is required to work outdoors or in the weather.”

“Driver and mechanic wages have gone up as much as 25% in the last year.”

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

	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 ^{^^}	
Plant Level Indicators															
Composite Index				0	10				15				27	25	
General Revenue/Sales	34	33	32	2	20	56	15	28	28	54	30	16	39	39	
Number of Employees	15	62	23	-8	-5	30	48	23	7	33	54	13	19	17	
Employee Hours Worked	21	56	23	-2	3	32	52	15	17	30	57	13	17	11	
Part-Time/Temporary Employment	16	70	14	1	3	22	65	12	10	20	70	10	10	11	
Wages and Benefits	28	68	5	23	29	66	32	2	64	44	52	4	40	42	
Inventory Levels	21	63	16	5	6	20	57	23	-4	25	60	14	11	2	
Credit Conditions/Access to Credit	3	92	5	-1	-1	8	84	7	1	10	85	5	5	6	
Capital Expenditures	22	69	8	14	17	29	58	13	16	33	61	6	27	28	
Input Prices	42	56	1	41	46	55	35	10	46	51	45	4	48	50	
Selling Prices	24	68	8	15	21	52	32	16	37	48	43	9	39	39	

*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 February survey was open for a five-day period from February 20-25, 2019 and included 87 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Services Composite Index vs. a Month Ago

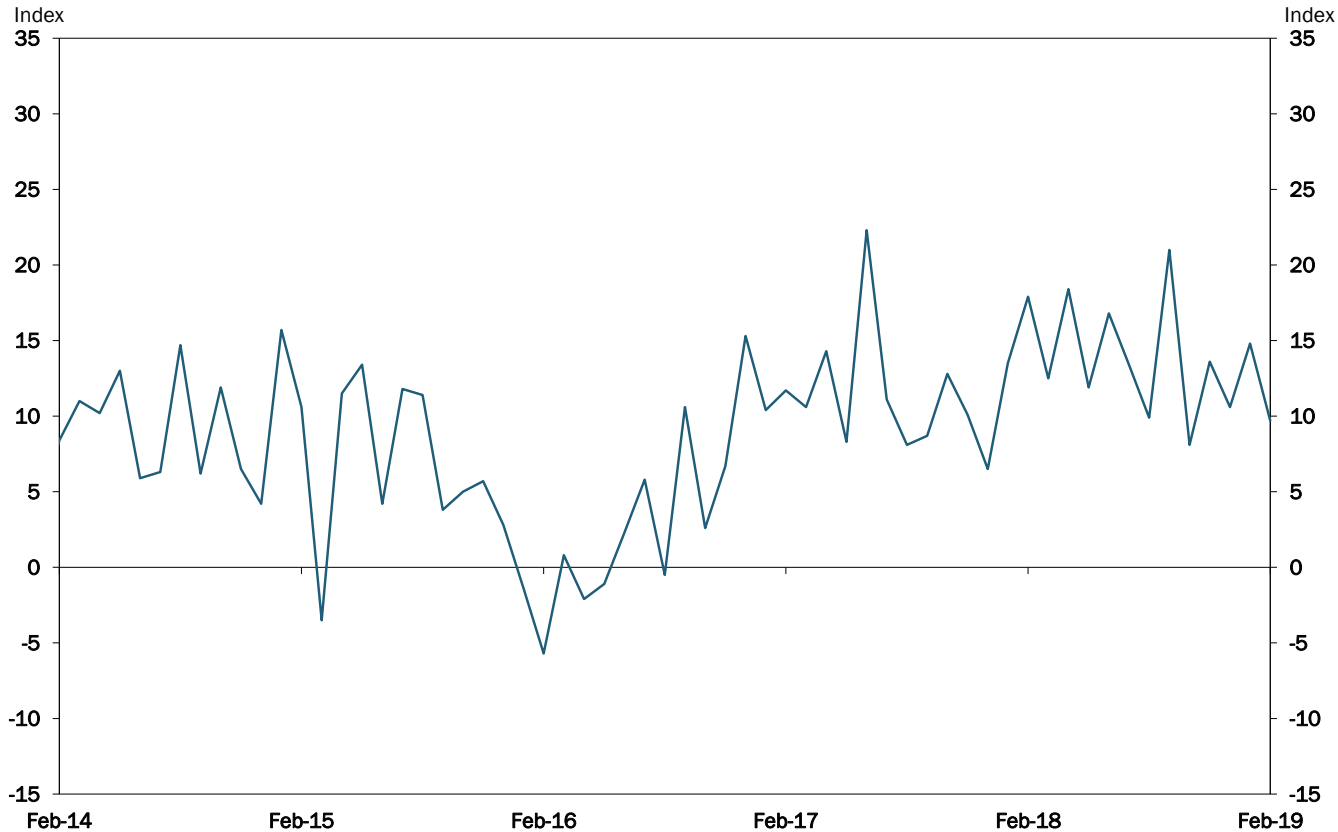


Chart 2. Special Question: Labor market and wage conditions

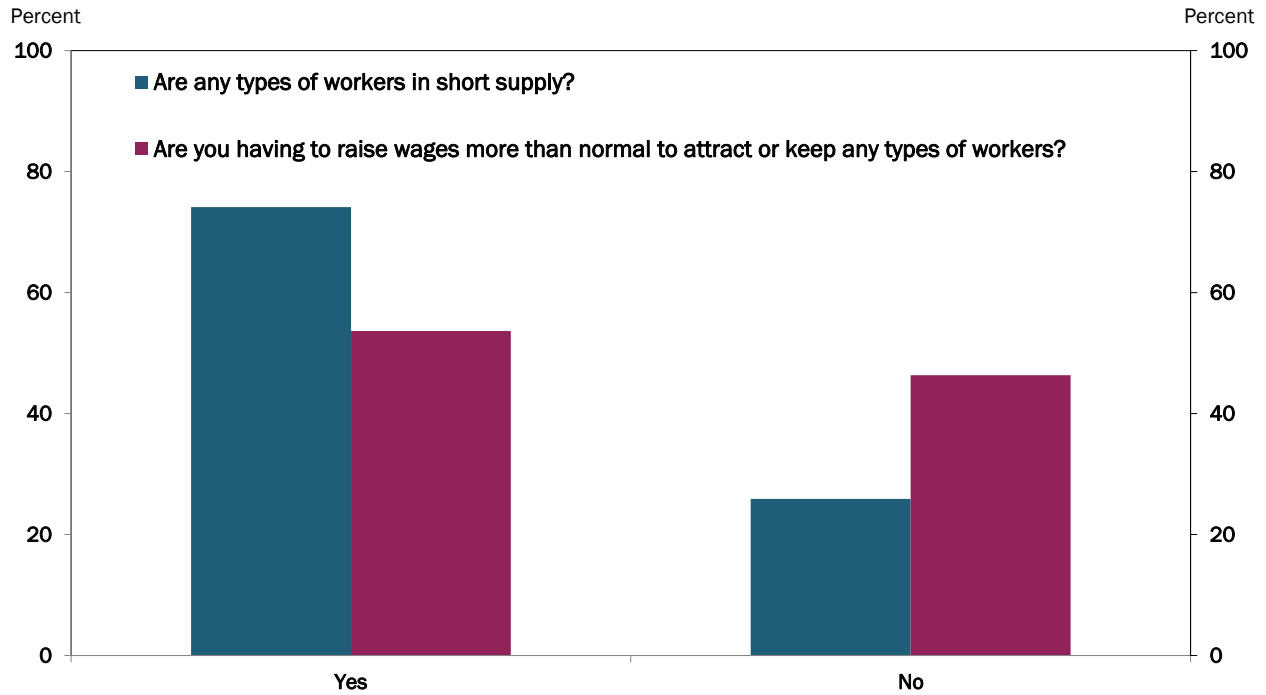


Chart 3. Special Question: On average, what percentage wage gains did your firm experience in 2018, and what are your expectations for 2019?

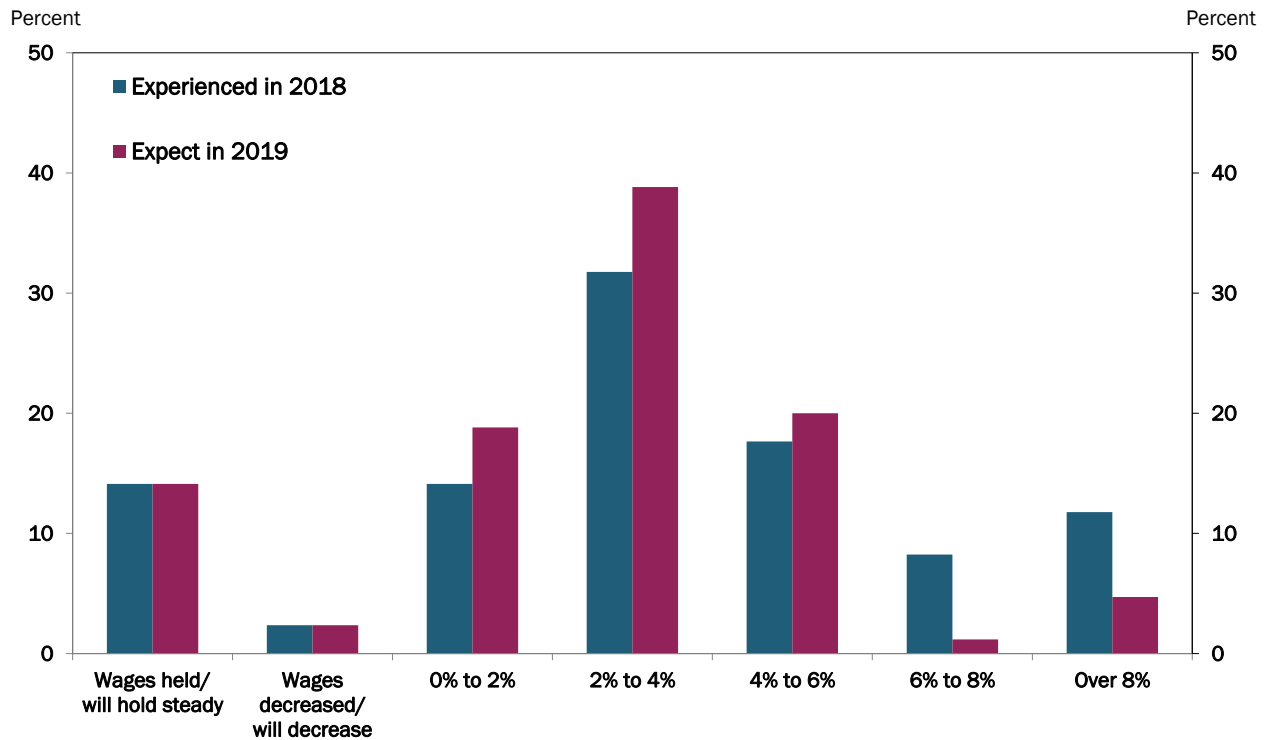


Table 2
Historical Services Survey Indexes

	Feb'18	Mar'18	Apr'18	May'18	Jun'18	Jul'18	Aug'18	Sep'18	Oct'18	Nov'18	Dec'18	Jan'19	Feb'19
Versus a Month Ago (seasonally adjusted)													
Composite Index	18	13	18	12	17	13	10	21	8	14	11	15	10
General revenue/sales	21	12	29	21	24	22	16	38	11	18	5	27	20
Number of employees	16	13	9	0	10	4	5	4	6	4	17	7	-5
Employee hours worked	15	11	15	5	11	10	1	27	2	12	6	12	3
Part-time/temporary employment	9	6	9	10	5	3	-4	10	15	7	6	8	3
Wages and benefits	32	32	32	28	31	17	27	34	31	29	22	34	29
Inventory levels	13	13	6	7	9	6	2	4	4	17	15	-4	6
Credit conditions/access to credit	4	4	5	1	2	1	-1	-1	2	-6	-6	-6	-1
Capital expenditures	20	18	18	21	17	12	9	10	15	6	14	14	17
Input prices	47	34	36	36	35	34	33	40	34	38	23	34	46
Selling prices	33	26	8	28	27	26	20	25	15	28	17	14	21
Versus a Year Ago (not seasonally adjusted)													
Composite Index	28	24	26	17	18	24	25	28	21	27	18	21	15
General revenue/sales	32	23	38	14	17	29	31	41	25	33	23	29	28
Number of employees	26	24	19	18	22	18	24	22	21	20	12	16	7
Employee hours worked	25	16	15	15	25	16	19	19	20	22	12	13	17
Part-time/temporary employment	11	10	0	9	13	18	10	5	14	13	10	3	10
Wages and benefits	64	59	62	57	63	58	58	70	62	51	56	60	64
Inventory levels	19	24	8	22	13	18	13	6	9	21	12	9	-4
Credit conditions/access to credit	6	4	9	4	2	4	0	-3	-3	-2	-4	0	1
Capital expenditures	24	22	29	28	27	29	23	31	35	22	33	21	16
Input prices	65	54	56	65	59	57	68	63	49	57	45	51	46
Selling prices	49	47	37	48	43	51	47	55	36	42	29	30	37
Expected in Six Months (seasonally adjusted)													
Composite Index	37	39	39	29	30	28	33	32	28	25	25	17	25
General revenue/sales	47	51	53	36	40	36	43	44	39	29	36	31	39
Number of employees	31	34	34	28	28	25	27	22	26	19	18	7	17
Employee hours worked	25	27	25	23	14	19	26	23	20	15	11	10	11
Part-time/temporary employment	20	9	6	12	10	8	9	9	19	14	13	6	11
Wages and benefits	55	53	48	39	50	47	46	62	53	38	41	36	42
Inventory levels	19	15	12	14	9	13	17	16	5	22	6	-1	2
Credit conditions/access to credit	4	-1	3	1	1	7	-3	-2	0	-2	-5	-1	6
Capital expenditures	27	23	27	26	26	16	22	15	18	19	27	25	28
Input prices	58	45	52	33	44	41	52	53	44	47	37	48	50
Selling prices	41	37	30	34	34	28	33	44	31	38	21	33	39