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Tenth District Manufacturing Activity Grew at a Strong Pace

Federal Reserve Bank of Kansas City Releases February Manufacturing Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the February Manufacturing Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District manufacturing activity grew at a strong pace, and expectations for future activity increased.

"Regional factory activity continued to increase in February," said Wilkerson. "Firms noted that supply chain and shipping delays continue to cause issues. Most manufacturers reported higher business costs compared to a year ago and have passed through some of these costs to customers resulting in higher prices."

A summary of the survey is attached. Historical data, results from past surveys, and release dates for future surveys can be found at https://kansascityfed.org/surveys/manufacturing-survey/.

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 MANUFACTURING SUMMARY

Tenth District manufacturing activity grew at a strong pace, and expectations for future activity increased (Chart 1, Tables 1 & 2). The monthly index of raw materials prices expanded at a steady pace in February and continued to increase compared to a year ago. Finished goods price indexes eased slightly from a month ago, but were above year-ago levels for most firms. Expectations for future raw materials and finished goods prices increased further.

Factory Activity Grew at a Strong Pace

The month-over-month composite index was 29 in February, up from 24 in January, and 22 in December (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Increased activity was driven by growth in machinery manufacturing, plastics, fabricated metal products, and especially transportation equipment. On the other hand, beverage manufacturing, computer and electrical equipment, textiles, and petroleum manufacturing declined. Month-over-month indexes remained positive in February, indicating expansion. Indexes for production, shipments, new orders, employment, and new orders for exports increased at a faster rate in February. However, the pace of growth for order backlog and supplier delivery time moved down. Materials and finished goods inventories expanded modestly. Year-over-year factory indexes continued to rise at a steady pace, with a composite index of 50 for the fifth month in a row. Production, shipments, and employment indexes increased further from a year ago while growth in materials inventories eased slightly. The future composite index was 38 in February, edging higher from 37 in January as most future indexes increased. More firms expected increases in production, shipments, and new orders.

Special Questions

This month contacts were asked special questions about business costs and how much of their costs care passed through in the form of higher prices. In February, 96% of firms reported higher costs from wages and 84% of firms reported higher costs from non-wage benefits (Chart 2). A significant share of firms also reported higher financing costs and real estate expenses (e.g. rent, maintenance, and construction) though many firms also reported no change in those costs. Nearly all firms reported facing higher costs of some sort. 29% of firms indicated the ability to pass through 80-100% of cost increases to customers in the form of higher prices (Chart 3). However, 35% of firms reported they could only pass through 20% or less of cost increases (Chart 3). A number of firms commented that the high pace of increasing prices has made it difficult to pass through cost increases.

Selected Manufacturing Comments

“Shipping/freight is becoming a bigger and bigger issue.”

“301 tariff continues to affect our business in a negative fashion. Adding costs on top of transportation costs that will prevent us from growing and hiring.”

“Supply chain and logistics continue to be our biggest challenges. Besides the historically high cost of both inbound and outbound ocean freight, we are seeing no improvement in long delays at ports and are still having difficulties getting shipments out due to the lack of availability of truck drivers.”

“Finding qualified employees is difficult. Bigger issue for us is obtaining raw materials and supply chain continues to be dysfunctional.”

“We continue to see higher prices on everything from supplies, energy, capital equipment, services, contractors, and labor rates. Some of our input costs have [gone] up 300%.”

“Cost increases are coming in so fast it's difficult to raise prices quickly enough to keep up.”

“We do not operate on high margins. Any increase gets passed through to the customer in full or at least partially.”

“Steel [price] increases have been passed on to customers, all other costs have not.”

“We went out with a 15% price increase in 2022. We have not had any pushback.”

“We have to [give] notice 2-6 months in advance of any price increases in order to get them in place. This means we cannot effectively pass along increases in products to our customers as fast as our vendors pass them along to us causing [profit] margin erosion and other financial issues.”

“Only reason I am able to pass significant price increases to my customers is because my competitors don't have the products either.”

Table 1. Summary of Tenth District Manufacturing Conditions, February 2022

	February vs. January (percent)*					February vs. Year Ago (percent)*				Expected in Six Months (percent)*				
Plant Level Indicators	Increase	No Change	Decrease	Diff Index^	SA Index*^	Increase	No Change	Decrease	Diff Index^	Increase	No Change	Decrease	Diff Index^	SA Index*^
Composite Index				25	29				50				36	38
Production	40	45	15	24	31	64	24	12	52	62	24	13	49	57
Volume of shipments	38	40	22	16	24	68	19	13	55	63	23	13	50	55
Volume of new orders	45	36	20	25	32	64	20	16	47	54	33	12	42	36
Backlog of orders	43	37	20	24	22	65	24	11	54	42	42	16	27	29
Number of employees	37	52	11	26	26	60	30	10	51	52	42	6	47	52
Average employee workweek	25	67	8	17	24	44	44	12	32	37	51	12	25	26
Prices received for finished product	52	42	5	47	47	88	10	2	86	72	21	7	66	70
Prices paid for raw materials	73	23	4	68	64	99	1	0	99	87	8	6	81	85
Capital expenditures						39	51	10	29	43	48	9	34	35
New orders for exports	13	82	4	9	10	20	70	10	10	19	75	6	14	14
Supplier delivery time	47	40	13	34	36	77	9	14	63	50	30	20	30	30
Inventories: Materials	33	52	15	18	19	58	22	20	38	36	41	23	12	14
Inventories: Finished goods	23	59	18	6	7	38	42	20	18	34	47	18	16	19

*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 16-22, 2022 and included 93 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Indexes

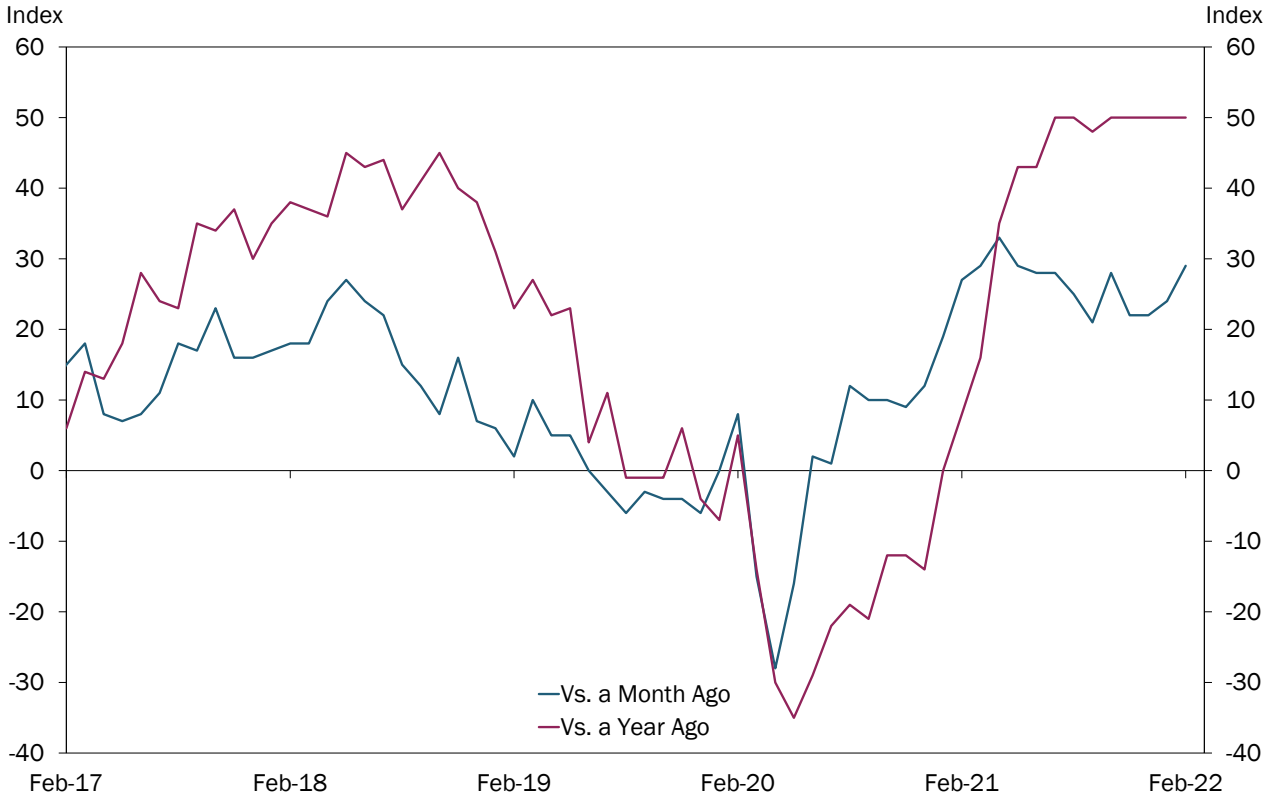

Chart 2. Special Question: How have your firm's costs changed over the past year in the following categories?

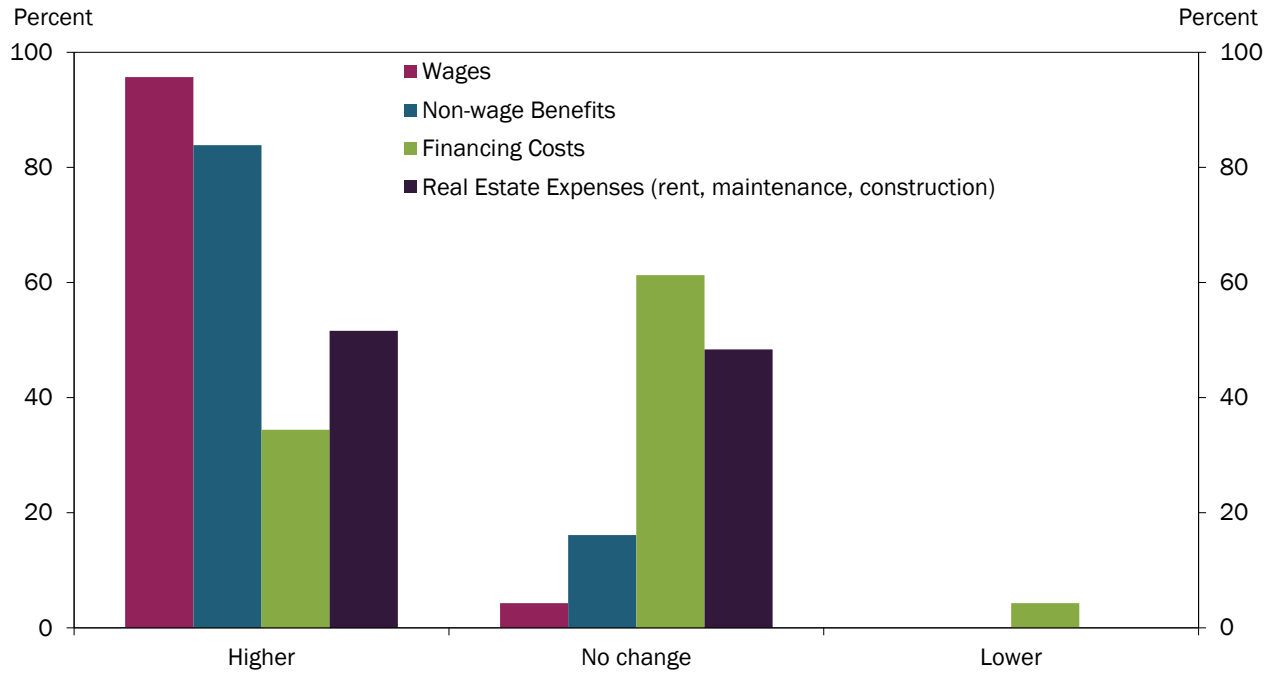

Chart 3. Special Question: If your firm is facing higher costs, what share of those increases are you able to pass through to customers in the form of higher prices?

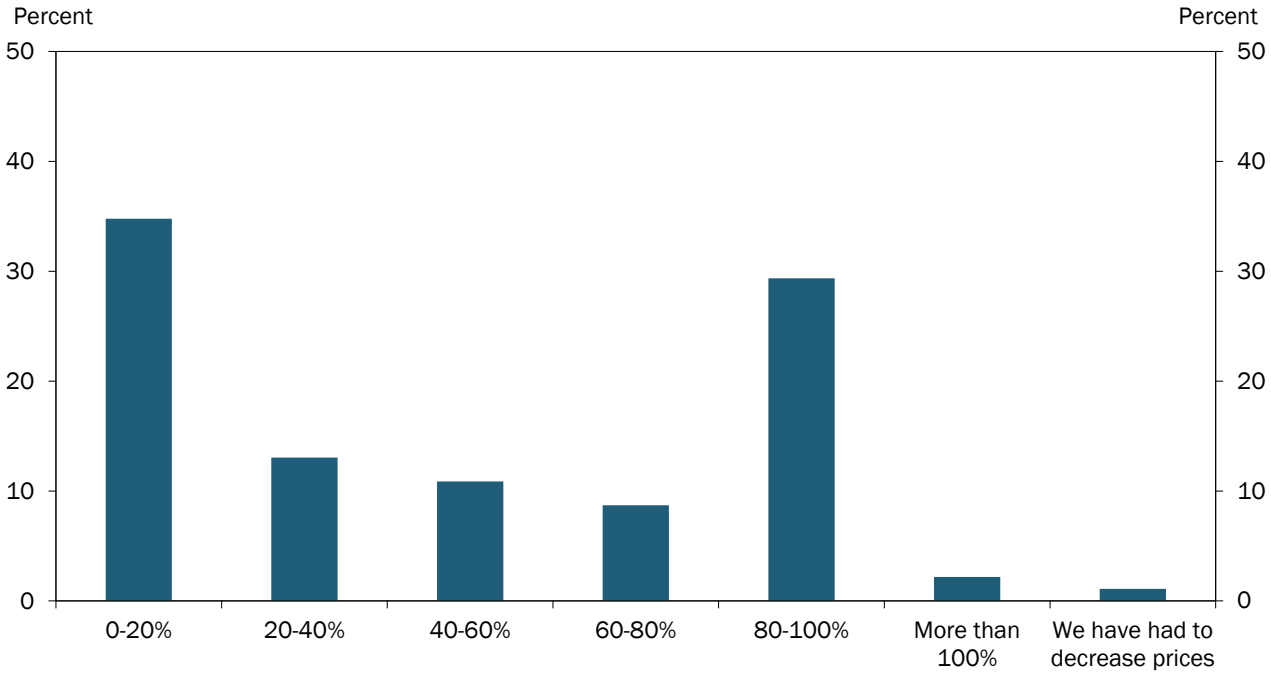

Table 2
Historical Manufacturing Survey Indexes

	Feb'21	Mar'21	Apr'21	May'21	Jun'21	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22
Versus a Month Ago (seasonally adjusted)													
Composite Index	27	29	33	29	28	28	25	21	28	22	22	24	29
Production	29	28	41	37	31	35	18	10	19	14	11	20	31
Volume of shipments	20	31	34	33	24	29	19	9	21	7	13	5	24
Volume of new orders	25	44	34	38	23	22	24	4	20	-2	22	14	32
Backlog of orders	29	37	38	31	31	46	26	23	21	10	9	27	22
Number of employees	23	21	30	23	27	25	24	20	32	23	18	24	26
Average employee workweek	17	23	27	24	21	23	14	11	13	9	8	8	24
Prices received for finished product	29	37	45	50	45	49	57	37	45	50	46	49	47
Prices paid for raw materials	65	74	79	88	82	80	80	78	81	77	67	64	64
Capital expenditures	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
New orders for exports	9	5	9	7	9	15	6	4	4	4	1	6	10
Supplier delivery time	40	38	35	27	39	41	42	41	49	55	44	38	36
Inventories: Materials	17	14	25	22	20	17	18	29	17	20	17	27	19
Inventories: Finished goods	-4	-4	9	5	2	4	1	1	4	-2	4	8	7
Versus a Year Ago (not seasonally adjusted)													
Composite Index	8	16	35	43	43	50	50	48	50	50	50	50	50
Production	4	4	46	61	55	64	64	67	55	49	54	49	52
Volume of shipments	7	-1	42	59	49	64	55	55	55	46	49	38	55
Volume of new orders	16	21	47	61	47	66	57	57	64	57	60	51	47
Backlog of orders	8	15	36	44	52	62	63	59	60	56	48	53	54
Number of employees	-15	0	24	36	30	35	35	24	41	42	38	41	51
Average employee workweek	-1	14	36	43	49	54	44	43	39	41	32	34	32
Prices received for finished product	40	48	64	73	77	80	79	83	89	87	88	88	86
Prices paid for raw materials	82	88	92	97	98	100	96	100	99	98	98	97	99
Capital expenditures	19	5	17	20	31	35	26	34	28	29	43	26	29
New orders for exports	-1	-5	9	21	21	19	17	16	20	17	14	13	10
Supplier delivery time	42	39	28	36	51	42	48	56	63	70	66	62	63
Inventories: Materials	-6	14	29	20	34	44	44	36	28	29	34	49	38
Inventories: Finished goods	-30	-18	7	6	13	16	14	14	6	0	12	17	18
Expected in Six Months (seasonally adjusted)													
Composite Index	34	37	38	37	36	33	33	33	32	31	26	37	38
Production	47	50	52	55	46	46	45	54	39	37	33	44	57
Volume of shipments	48	48	55	59	49	43	40	50	36	35	34	45	55
Volume of new orders	41	40	46	43	43	39	31	32	34	36	22	30	36
Backlog of orders	20	27	26	27	24	24	15	20	16	11	11	33	29
Number of employees	34	44	51	48	45	46	42	39	37	41	34	57	52
Average employee workweek	17	26	30	29	28	19	16	21	17	14	13	30	26
Prices received for finished product	42	51	49	60	55	62	54	55	58	53	52	67	70
Prices paid for raw materials	69	77	84	79	74	75	74	76	72	60	65	73	85
Capital expenditures	28	28	34	28	35	32	29	34	32	20	21	28	35
New orders for exports	12	7	12	17	17	20	6	7	10	9	1	17	14
Supplier delivery time	34	27	17	18	25	20	30	27	42	32	31	37	30
Inventories: Materials	13	25	22	21	24	13	17	12	8	9	11	16	14
Inventories: Finished goods	1	9	13	4	10	1	-2	10	6	3	1	10	19