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Growth in Tenth District Manufacturing Activity Slowed Slightly
Federal Reserve Bank of Kansas City Releases May Manufacturing Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the May Manufacturing Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that growth in Tenth District manufacturing activity slowed slightly but activity remained strong, and expectations for future activity also eased slightly from recent historical highs.

“The pace of regional factory growth slowed slightly but remained strong,” said Wilkerson. “Firms continued to report negative impacts from higher inflation and supply shortages. Nearly 70% of all firms reported worse supply disruptions and shortages compared with 2021, with most expecting conditions to last another six months or longer.”

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

Growth in Tenth District manufacturing activity slowed slightly but remained strong, and expectations for future activity also eased slightly from recent historical highs (Chart 1, Tables 1 & 2). Raw materials price indexes modestly declined from last month and remained similar to year-ago levels. Finished goods price indexes eased modestly from a month ago and compared with last year. Expectations for future raw materials and finished goods prices remained high, but not as much as recent historical highs.

Factory Activity Pace of Growth Slowed Slightly

The month-over-month composite index was 23 in May, down from 25 in April, and 37 in March (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Factory growth was driven by more activity at durable goods plants in May, especially transportation equipment, electrical equipment, and furniture related product manufacturing. Month-over-month indexes were positive in May, but the pace of growth eased slightly. Indexes for volume of new orders, employment, and order backlog rose at a faster pace, while the growth in supplier delivery time and volume of shipments decreased modestly. New orders for exports also inched up. Year-over-year factory indexes remained steady, with a composite index of 54 for the second month in a row. Supplier delivery time increased modestly compared to a year ago, along with finished goods and materials inventories. The future composite index was 31 in May, down from 34 in April. Indexes for future production, shipments, new orders, and capital spending moderated slightly, while firms expected increases in order backlog, new orders for export, and supplier delivery time.

Special Questions

This month contacts were asked special questions on rising materials prices, supply chain disruptions/shortages, and wage and price expectations. In May, 92% of firms reported being affected by rising materials prices and lack of availability/delivery times and 87% anticipated this to persist for at least 6 months or longer (Chart 2). Over 59% of firms expected wages and prices to rise slightly or significantly faster compared with a year ago. A significant share of firms reported the expectation for prices to rise at a similar rate (Chart 3). However, a small share of firms reported the expectation for wages and prices to rise slower than a year ago.

Selected Manufacturing Comments

“Inflation is killing us, everyone is raising prices, labor is higher.”

“We continue to struggle hiring people. In some cases, we have raised wages 20% in the past few years. This trend is very troubling.”

“Continue to see tight labor market. Need to attract employees from other companies.”

“It's a struggle to keep up with increased costs of materials and finding new ways to attract workers. The current labor pool is dismal at best. 50% fail to show up for the interview and another 30% fail the drug test.”

“Most challenging time in my 29 years in our business - energy costs, labor shortages, raw material price increases and raw material supply disruptions are an ongoing and endless source of problems to manage and trying to carry more inventory is tying up our cash. We see no indication of improvement for any of these issues at least through the next 6 months. Like everyone else we are trying to pass on price increases, but it is hard to keeping up with cost increases.”

“There is a very troubling loop of high inflation causing significant issues for people commuting to work. This is driving higher wages and once again, companies are forced to raise prices. At some point, the US will become uncompetitive globally and could slow demand.”

“Our non-raw material (steel) costs continue to increase. Production supplies and repair parts are increasing in price and increasingly difficult to obtain. It is causing us to increase our investment in such non-production inventories to compensate for lead-time and availability.”

“Supply chain problems and raw material price increases will continue for the next year fueling price increases on our finished products.”

“Not only is inflation hitting us on the raw materials, freight, and product pricing areas, we are seeing notable softness in the market which we believe is due to the general public shifting to austerity mode. Only buying what is essential and not eating out as much.”

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

Plant Level Indicators	May vs. April (percent)*					May 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				24	23				54				26	31	
Production	38	43	19	19	19	65	22	13	52	48	38	14	33	39	
Volume of shipments	37	43	20	17	17	65	21	14	51	44	40	16	29	32	
Volume of new orders	40	37	23	17	15	65	23	12	53	43	35	22	20	28	
Backlog of orders	37	47	17	20	20	58	29	13	44	36	41	23	12	18	
Number of employees	40	52	8	32	34	60	23	16	44	46	44	10	36	40	
Average employee workweek	19	73	8	11	13	33	53	14	19	30	60	10	20	22	
Prices received for finished product	48	48	4	43	42	91	8	1	90	74	19	7	68	68	
Prices paid for raw materials	77	18	6	71	72	97	1	2	95	74	18	8	67	69	
Capital expenditures						42	47	11	30	29	60	11	18	24	
New orders for exports	12	84	5	7	8	20	70	10	9	20	74	6	14	13	
Supplier delivery time	40	49	11	29	29	77	13	10	67	47	40	13	33	39	
Inventories: Materials	33	56	11	21	19	62	29	9	53	30	45	25	6	8	
Inventories: Finished goods	19	66	15	5	1	42	45	13	28	23	59	18	5	7	

*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 May survey was open for a five-day period from May 18-23, 2022 and included 91 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Indexes



Chart 2. Special Question: If your firm has been affected by rising materials prices and lack of availability/delivery times, how long do you anticipate this to persist?

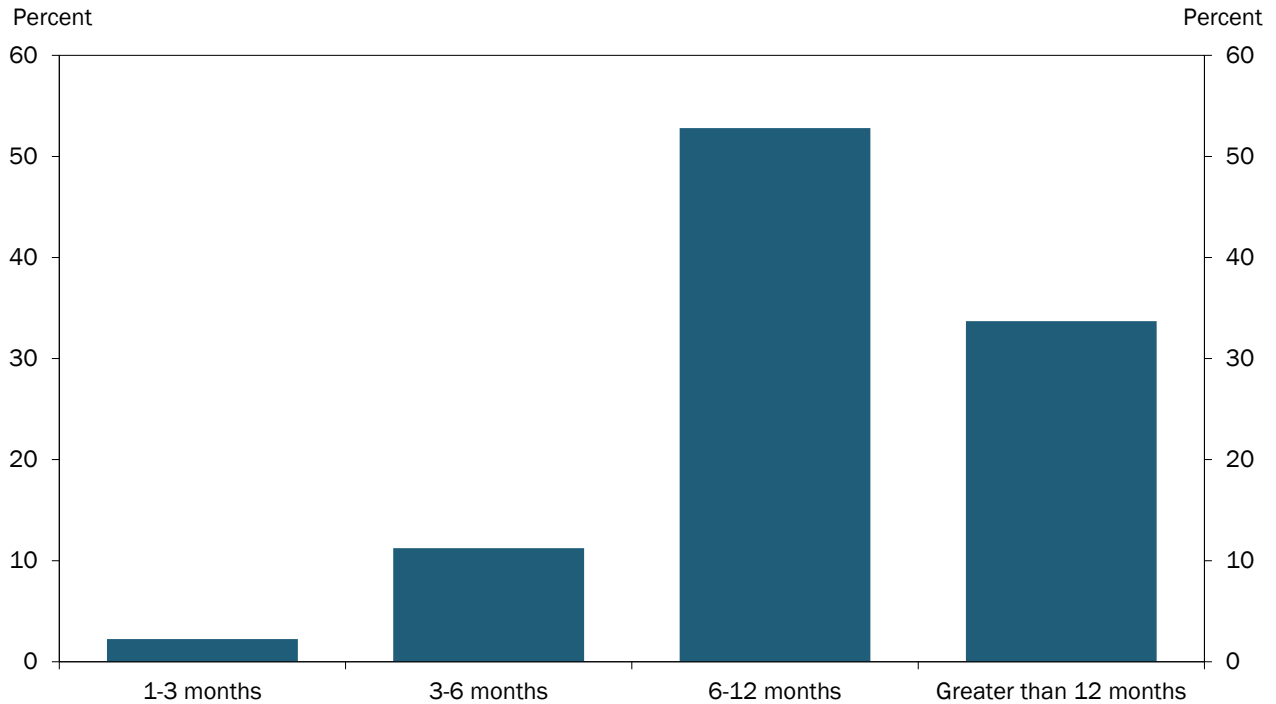


Chart 3. Special Question: Over the next year, what are your expectations for the wages and prices of your firms finished products compared to changes over the past 12 months?

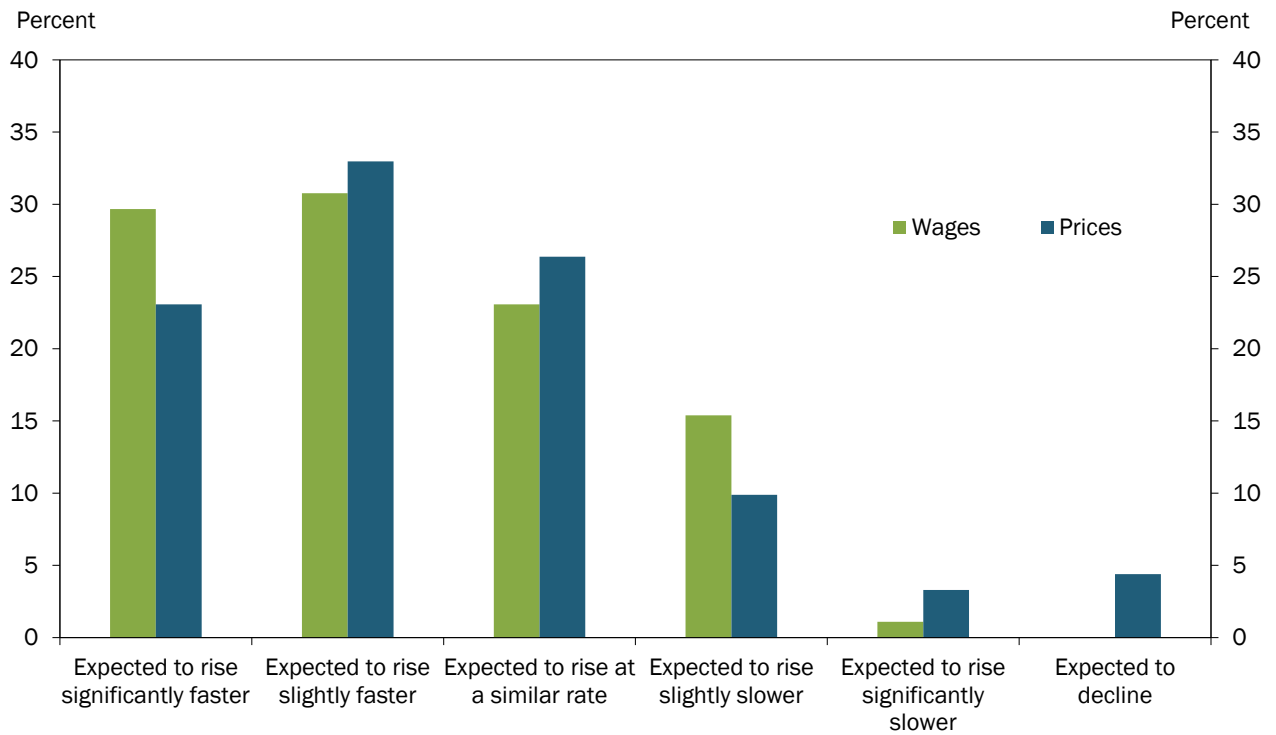


Table 2
Historical Manufacturing Survey Indexes

	May'21	Jun'21	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22	Mar'22	Apr'22	May'22
Versus a Month Ago (seasonally adjusted)													
Composite Index	29	28	28	25	21	28	22	22	24	29	37	25	23
Production	37	31	35	18	10	19	14	11	20	31	46	28	19
Volume of shipments	33	24	29	19	9	21	7	13	5	24	46	27	17
Volume of new orders	38	23	22	24	4	20	-2	22	14	32	33	10	15
Backlog of orders	31	31	46	26	23	21	10	9	27	22	29	9	20
Number of employees	23	27	25	24	20	32	23	18	24	26	18	19	34
Average employee workweek	24	21	23	14	11	13	9	8	8	24	14	10	13
Prices received for finished product	50	45	49	57	37	45	50	46	49	47	51	57	42
Prices paid for raw materials	88	82	80	80	78	81	77	67	64	64	81	83	72
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	7	9	15	6	4	4	4	1	6	10	8	4	8
Supplier delivery time	27	39	41	42	41	49	55	44	38	36	55	42	29
Inventories: Materials	22	20	17	18	29	17	20	17	27	19	32	26	19
Inventories: Finished goods	5	2	4	1	1	4	-2	4	8	7	19	5	1
Versus a Year Ago (not seasonally adjusted)													
Composite Index	43	43	50	50	48	50	50	50	50	50	57	54	54
Production	61	55	64	64	67	55	49	54	49	52	63	63	52
Volume of shipments	59	49	64	55	55	55	46	49	38	55	53	65	51
Volume of new orders	61	47	66	57	57	64	57	60	51	47	58	53	53
Backlog of orders	44	52	62	63	59	60	56	48	53	54	60	52	44
Number of employees	36	30	35	35	24	41	42	38	41	51	38	48	44
Average employee workweek	43	49	54	44	43	39	41	32	34	32	28	23	19
Prices received for finished product	73	77	80	79	83	89	87	88	88	86	87	92	90
Prices paid for raw materials	97	98	100	96	100	99	98	98	97	99	98	98	95
Capital expenditures	20	31	35	26	34	28	29	43	26	29	16	28	30
New orders for exports	21	21	19	17	16	20	17	14	13	10	16	12	9
Supplier delivery time	36	51	42	48	56	63	70	66	62	63	71	57	67
Inventories: Materials	20	34	44	44	36	28	29	34	49	38	56	52	53
Inventories: Finished goods	6	13	16	14	14	6	0	12	17	18	28	21	28
Expected in Six Months (seasonally adjusted)													
Composite Index	37	36	33	33	33	32	31	26	37	38	41	34	31
Production	55	46	46	45	54	39	37	33	44	57	61	49	39
Volume of shipments	59	49	43	40	50	36	35	34	45	55	57	51	32
Volume of new orders	43	43	39	31	32	34	36	22	30	36	40	31	28
Backlog of orders	27	24	24	15	20	16	11	11	33	29	22	11	18
Number of employees	48	45	46	42	39	37	41	34	57	52	46	41	40
Average employee workweek	29	28	19	16	21	17	14	13	30	26	25	19	22
Prices received for finished product	60	55	62	54	55	58	53	52	67	70	75	74	68
Prices paid for raw materials	79	74	75	74	76	72	60	65	73	85	84	79	69
Capital expenditures	28	35	32	29	34	32	20	21	28	35	29	29	24
New orders for exports	17	17	20	6	7	10	9	1	17	14	20	10	13
Supplier delivery time	18	25	20	30	27	42	32	31	37	30	48	29	39
Inventories: Materials	21	24	13	17	12	8	9	11	16	14	11	17	8
Inventories: Finished goods	4	10	1	-2	10	6	3	1	10	19	12	10	7