

# News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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## TENTH DISTRICT MANUFACTURING ACTIVITY CONTINUED TO EXPAND SOLIDLY *Federal Reserve Bank of Kansas City Releases July Manufacturing Survey*

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the July 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 continued to expand solidly, and expectations for future growth remained strong.

“Our composite index came down slightly from record highs in recent months,” said Wilkerson. “Many firms remain concerned about labor availability and tariffs, but optimism is still high.”

A summary of the July survey is attached. Results from past surveys and release dates for future surveys can be found at [www.kansascityfed.org/research/indicatorsdata/mfg](http://www.kansascityfed.org/research/indicatorsdata/mfg).

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](http://www.kansascityfed.org).

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## TENTH DISTRICT MANUFACTURING SUMMARY

Tenth District manufacturing activity continued to expand solidly in July, with the composite index dipping slightly after May's record-high reading. Expectations for future growth remained high, despite many firms citing labor tightness and tariffs as increasingly worrisome. Price indexes also continued to rise.

The month-over-month composite index was 23 in July, down from readings of 28 in June and 29 in May (Tables 1 & 2, Chart 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Factory activity increased solidly at durable and nondurable goods plants, particularly for petroleum and coal products, minerals, fabricated metal, computers and electronics, and transportation equipment. Month-over-month indexes were mixed compared with the previous month, but most indexes remained at high levels. The employment index inched up while the order backlog and new orders for exports indexes were virtually unchanged. The production and shipments indexes fell moderately, and the new orders index eased somewhat. The raw materials index fell modestly and the finished goods inventory index also dipped slightly.

Most year-over-year factory indexes inched up in July. The composite index increased marginally from 43 to 44. The production, order backlog, capital expenditures, and new orders for exports all improved. However, the shipments and new orders indexes declined modestly and the employment index was mostly unchanged. The raw materials inventory index dipped from 36 to 32 and the finished goods inventory index eased from 26 to 23.

Future factory activity indexes were mixed, but remained at high levels. The future composite index eased from 36 to 34. The future order backlog and employment indexes both improved modestly, and the capital expenditures and new orders for exports indexes inched up. The future shipments index remained at 52 while the future production and new order indexes dipped slightly. The future raw materials index moderated from 30 to 15, while the future finished goods inventory index declined from 23 to 7.

Most price indexes increased in July. The month-over-month finished goods price index rose from 22 to 27 and the raw materials price index increased from 47 to 52. The year-over-year finished goods price index was unchanged at 60, while the year-over-year raw materials price index rose from 79 to 86. The future finished goods price index grew from 40 to 43 and the future raw materials price index inched up from 67 to 68.

## **SELECTED COMMENTS**

“There is a lot of work and no one to make the products. We have been trying to add an extended shift and can’t get anyone. Offering \$1,000 sign up bonus and no one is coming to apply.”

“In general, the economy is strong and employees are adequately available. We are training talent internally and do not see the current labor market to be significantly worse than others in which we have operated successfully.”

“Labor availability (even if unqualified) is a key constraint to growth.”

“We cannot raise our prices fast enough to keep pace with ridiculous cost increases caused by tariffs and threats of tariffs. We expect to make less profit in 2018 than last year, which is keeping us from hiring more people and paying bonuses. We are focusing more on automation to combat being on the losing end of tariff cost increases.”

“Customers and large global companies are pushing back on pass through price increases from increased material costs.”

“Despite difficulties with tariffs, we are experiencing growth we have not seen in several years. Belief is that this growth is fueled by difficulties our competitors are experiencing.”

“The price of steel has increased 35 percent since January. With higher priced steel and a difficult labor supply, we will begin for the first time ever to investigate outsourcing steel parts, and if successful reduce capital spending.”

“The trade development have an adverse effect on cost thus causing prices for finished goods to rise. To date the steel available in the U.S. is not of comparable quality with the type from overseas suppliers being utilized in our processes.”

“We have been able to absorb the drastic increase in metal pricing up to now. Price increases for finished products will have to increase within the next few months.”

“Tariffs are increasing steel and steel component prices and will increase the cost of components supplied from China. We are being more cautious with capital expenditures as a consequence.”

“We have seen no effect from tariffs yet. We are concerned the next six months will bring change.”

**Table 1**  
**Summary of Tenth District Manufacturing Conditions, July 2018**

Plant Level Indicators	July vs. June (percent)*					July vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	No		Diff		SA	No		Diff		No		Diff		SA
	Increase	Change	Decrease	Index^	Index**^	Increase	Change	Decrease	Index^	Increase	Change	Decrease	Index^	Index**^
Composite Index				22	23				44				31	34
Production	37	43	20	17	22	67	14	19	48	52	38	10	42	49
Volume of shipments	37	40	23	14	12	62	20	18	44	53	37	10	43	52
Volume of new orders	39	40	22	17	21	63	23	14	49	46	43	11	35	37
Backlog of orders	29	49	22	7	9	57	30	14	43	38	52	10	27	29
Number of employees	35	57	8	27	26	63	22	16	47	46	45	9	37	42
Average employee workweek	26	60	14	11	14	45	43	12	33	27	61	12	14	13
Prices received for finished product	26	71	3	23	27	67	26	7	60	51	44	6	45	43
Prices paid for raw materials	57	38	5	51	52	89	8	3	86	72	21	7	66	68
Capital expenditures						52	36	12	39	45	44	10	35	38
New orders for exports	11	81	8	2	6	25	64	12	13	21	68	11	11	8
Supplier delivery time	30	69	1	28	28	47	49	5	42	30	68	2	28	29
Inventories: Materials	32	55	13	19	17	48	35	16	32	27	58	15	12	15
Inventories: Finished goods	29	54	16	13	11	42	39	19	23	26	57	16	10	7

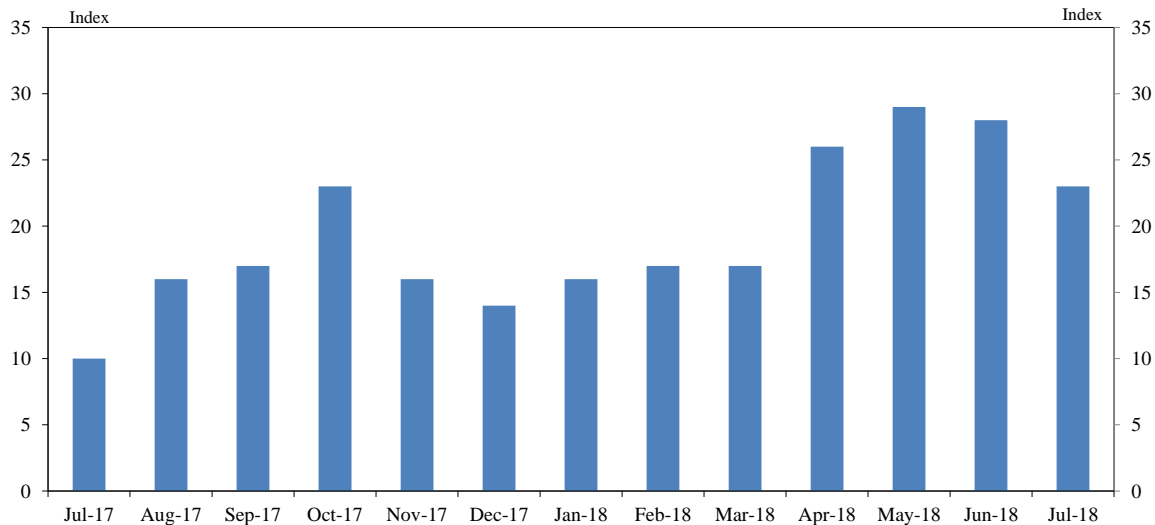
\*Percentage may not add to 100 due to rounding

^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-12.

Note: The July survey included 92 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

**Chart 1. Composite Index vs. a Month Ago**



**Table2**  
**Historical Manufacturing Survey Indexes**

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