

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

1 Memorial Drive • Kansas City, MO 64198 • Phone: 816.881.2683

FOR RELEASE Thursday, October 25, 2018
EMBARGOED FOR 10 A.M. CENTRAL TIME
CONTACT: Pam Campbell
405-270-8617
Pam.Campbell@kc.frb.org

TENTH DISTRICT MANUFACTURING ACTIVITY EXPANDED AT A SLOWER PACE *Federal Reserve Bank of Kansas City Releases October Manufacturing Survey*

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the October 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, but at a slower pace. Expectations for future activity eased slightly, but remained positive.

“While regional factories reported another month of growth, a number of firms engaged in international trade noted negative effects of tariffs on supply chains,” said Wilkerson.

A summary of the October survey is attached. Results from past surveys and release dates for future surveys can be found at 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.

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TENTH DISTRICT MANUFACTURING SUMMARY

Tenth District manufacturing activity expanded at a slower pace in October compared with the rapid expansion earlier in the year. Expectations for future activity growth also eased slightly, but remained positive. Price indexes mostly declined from high levels in recent months.

The month-over-month composite index was 8 in October, down from 13 in September and 14 in August (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. The decline in factory growth was driven by slower expansion at durable goods plants, especially for machinery, computer and electronic products, and transportation equipment, while activity at nondurable goods plants increased. Month-over-month indexes were mixed in September, but positive overall. The production and new orders indexes declined slightly, while the order backlog and new orders for exports indexes inched up. The shipments and employment indexes both increased. The materials inventory index declined and the finished goods inventory index was unchanged from last month's reading.

Most year-over-year factory indexes rose in October. The composite index grew from 41 to 45, and the production, shipments, new orders, and employment indexes all increased. In contrast, the new orders for exports index was unchanged, and the order backlog index inched lower. The capital expenditures index declined after a record posting last month. The finished goods and raw materials inventory indexes both came down somewhat, but remained high.

Future factory activity expectations eased somewhat. The future composite index edged down from 27 to 21, and the future employment, capital expenditures, and new orders for exports indexes also fell. The future production index moved lower, while the future shipments index was unchanged. On the other hand, the future new orders and order backlog indexes increased. The future raw materials inventory index decreased, and the future finished goods inventory index fell into negative territory for the first time since late 2016.

Most price indexes fell in October. The month-over-month finished goods price index dipped from 24 to 19, and the raw materials price index declined from 45 to 33. The year-over-year finished goods price index rose from 56 to 60 while the year-over-year raw materials price index inched down from 79 to 78. The future finished goods price index declined from 44 to 38, and the future raw materials price index fell from 57 to 37.

This month firms were asked special questions about investment in labor-saving technology and the impact of tariffs. Nearly 49 percent of respondents reported increasing investment in labor saving technology over the past year (Chart 2). On tariffs, more than 52 percent of respondents reported more input/output price pressures due to changes in tariffs, with many passing those increases through to the customer (Chart 3).

SELECTED COMMENTS

“We have had to commit to material further out in the future to secure both tariffed and non-tariffed materials. Uncertainty... is causing future material prices to go up. More time and effort is spent on material/resource allocation instead of routine supply chain processes.”

“U.S. steel mills have significantly raised prices and extended lead times which are affecting the supply chain.”

“Supply chain prices are up 5-8 percent. With new orders we are passing along those cost increases. However, for existing contracts we’ve had to absorb the cost. Consequently, our profit margin is 3 percent lower.”

“Margins are being reduced due to lack of labor availability, supply chain effects of tariffs both on component costs (increasing) and sales opportunities (decreasing)... make it difficult to get all components in house in time for building products.”

“Labor is still a big issue. We have staffed all departments but keep losing employees as other companies steal them away with promises of higher wages.”

“Our backlog of orders is at an all-time high but the challenge to hire and retain quality production personnel remains a major issue.”

“Tariff charges are being added to some invoices in the supply chain.”

“Our clients can go to Mexico and get products without tariffs even though they bought the same exact material from the same exact sources as we did, while we are paying 10 to 25 percent more for material.”

Table 1
Summary of Tenth District Manufacturing Conditions, October 2018

Plant Level Indicators	October vs. September (percent)*					October vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No		Diff	SA	Increase	No		Diff	Increase	No		Diff	SA
		Change	Decrease	Index^	Index**^		Change	Decrease	Index^		Change	Decrease	Index^	Index**^
Composite Index				10	8				45				24	21
Production	33	43	23	10	5	67	20	13	54	57	30	14	43	37
Volume of shipments	35	48	17	17	14	62	26	12	50	54	32	14	41	34
Volume of new orders	30	52	18	13	7	65	26	9	57	51	35	14	37	41
Backlog of orders	27	53	20	7	6	48	45	8	40	41	48	11	29	27
Number of employees	28	56	16	12	8	60	29	11	49	33	55	13	20	15
Average employee workweek	21	66	13	7	4	40	50	10	30	22	60	17	5	7
Prices received for finished product	26	71	4	22	19	67	26	7	60	46	46	8	39	38
Prices paid for raw materials	45	44	11	34	33	83	12	5	78	54	34	13	41	37
Capital expenditures						45	40	15	30	37	44	19	18	14
New orders for exports	12	80	8	4	3	22	68	11	11	16	76	8	8	8
Supplier delivery time	15	80	5	10	8	37	53	10	27	22	66	12	10	11
Inventories: Materials	23	59	17	6	10	52	33	15	37	31	45	24	8	3
Inventories: Finished goods	21	62	18	3	7	44	33	23	21	24	51	24	0	-5

*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 October survey included 83 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Composite Index vs. a Month Ago

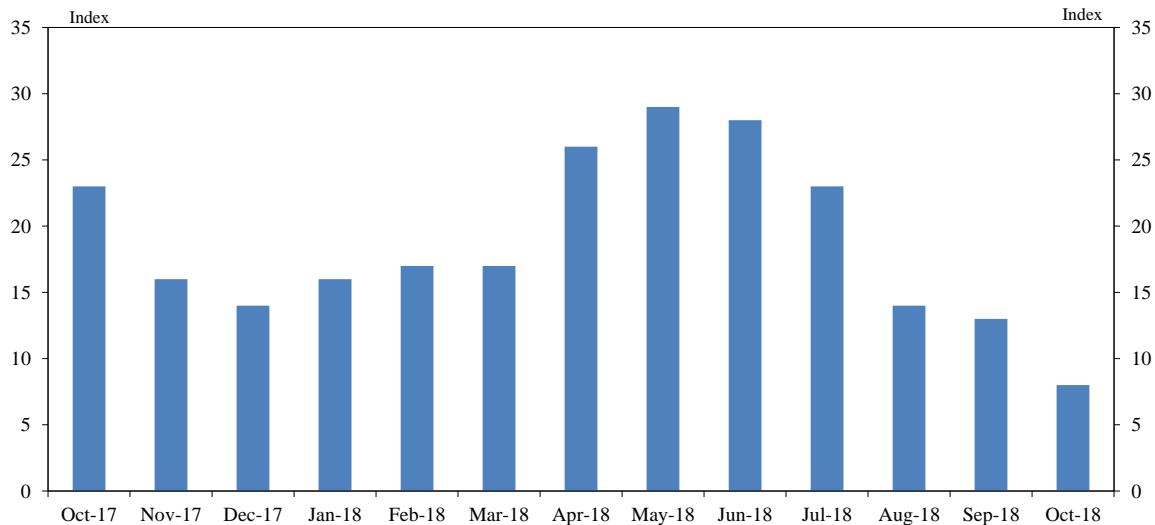


Table2
Historical Manufacturing Survey Indexes

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

Chart 2. Special Question

How has your firm's investment in labor-saving technology changed over the past year?

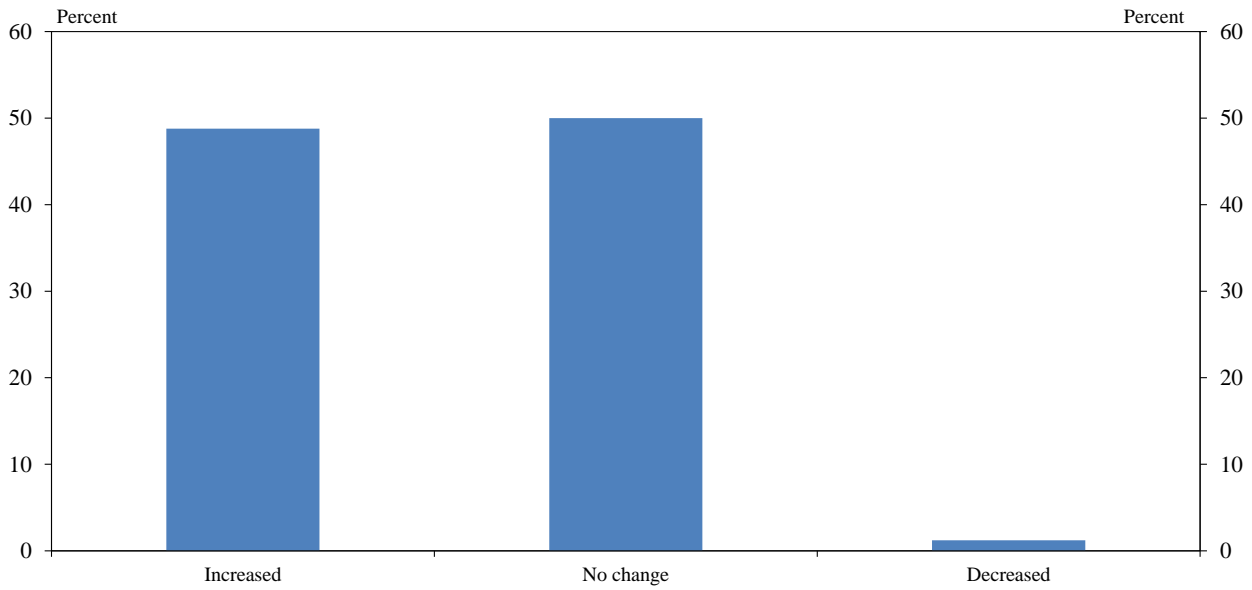


Chart 3. Special Question

Is your firm facing more price pressures (input/output) due to changes in tariffs?

