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CONTACT: Pam Campbell

(405) 270-8617

Pam.Campbell@kc.frb.org

Tenth District Manufacturing Declined in August
Federal Reserve Bank of Kansas City Releases August Manufacturing Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the August 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 declined in August, while expectations for future activity edged higher.

“Regional factory activity had its largest monthly drop in over three years, and over 55 percent of firms expect negative impacts from the latest round of U.S. tariffs on Chinese goods,” said Wilkerson. “However, even though many firms expect trade tensions to persist, expectations for future shipments and exports expanded slightly.”

A summary of the August 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 declined in August, while expectations for future activity edged higher (Chart 1). The month-over-month price indexes for raw materials and finished products decreased, turning negative for the first time since 2016. Firms continued to expect prices to rise over the next 6 months, however.

Factory Activity Declined in August

The month-over-month composite index was -6 in August, down from -1 in July and 0 in June, and the lowest reading since March 2016 (Table 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The drop in manufacturing activity was driven by declines at both durable and nondurable plants, but especially from decreases in primary metal, electrical equipment, appliances, paper, printing, and chemical manufacturing. Most month-over-month indexes decreased in August, and the shipments and supplier delivery time indexes also turned negative. All of the year-over-year factory indexes decreased in August, and the composite index fell from 11 to -1. On the other hand, the future composite index edged higher from 9 to 11, as expectations for shipments, order backlog, employment, and new orders for exports grew slightly.

Special Questions

This month contacts were asked special questions about the impact of recent tariff announcements and their expectations regarding the duration of trade tensions. Over 55 percent of regional manufacturing contacts expect the most recent round of announcements of U.S. tariffs on Chinese goods to negatively impact their business, while less than 6 percent expect a positive impact (Chart 2). More than 37 percent of firms expect trade tensions to persist for 1-2 years, and 29 percent of firms expect trade tensions to last for 6-12 months (Chart 3). However, 13 percent of contacts expect trade tensions to subside within 6 months, while 20 percent expect trade tensions to last for more than 2 years.

Selected Manufacturing Comments

“Continued weakening in product sold, volume down 21% compared to last year; down 8.3% compared to last year YTD. No improvement seen for the rest of the year.”

“Sales are starting to decline across all of our major retail accounts. I am having a hard time explaining to major corporations that China is paying for the tariffs at the same time I am request a price adjustment due to tariffs.”

“Our distributor in China is now paying an additional 31% in tariffs compared to 2018. He has had to raise his prices to consumers and so our sales have dramatically slowed down.”

“We are expecting higher prices for some materials sourced from China.”

“We are seeing a slow down in activity from some of our larger customers due to the tariffs.”

“Tariffs are negatively affecting business confidence. We make capital goods. Our customers delay investments when the climate is turbulent and uncertain. In addition, tariffs negatively affect many of our input costs, such as electronics and steel.”

“Uncertainty and lack of confidence have slowed manufacturing somewhat, or at least made deeper analysis necessary.”

“We continue to advertise for line workers with no success. Still need to hire about 10 people for the peak season but are not getting any applicants. Our temp companies are having a hard time filling our request.”

“Unemployment is still at historic lows and it is difficult to find new employees. Higher wage increases will be required to retain existing employees and attract new ones.”

“We continue to see wage pressure with the shortage of labor for manufacturing. We will be raising our starting base when we start our budgeting process for 2020.”

“Based on current and predicted future business conditions, I don’t anticipate being able to offer any wage increases in 2020.”

Table 1. Summary of Tenth District Manufacturing Conditions, August 2019

| Plant Level Indicators | August vs. July (percent)* | | | | August 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 | | | | -8 | -6 | | | | -1 | | | | 8 | 11 |
| Production | 28 | 36 | 36 | -8 | -2 | 36 | 27 | 37 | -1 | 45 | 28 | 28 | 17 | 23 |
| Volume of shipments | 29 | 32 | 39 | -9 | -7 | 39 | 25 | 36 | 3 | 41 | 32 | 28 | 13 | 20 |
| Volume of new orders | 19 | 40 | 41 | -23 | -16 | 29 | 25 | 45 | -16 | 39 | 29 | 32 | 8 | 11 |
| Backlog of orders | 15 | 50 | 35 | -19 | -19 | 24 | 40 | 36 | -12 | 30 | 38 | 32 | -1 | 4 |
| Number of employees | 14 | 64 | 23 | -9 | -7 | 40 | 28 | 32 | 8 | 31 | 43 | 27 | 4 | 7 |
| Average employee workweek | 21 | 65 | 13 | 8 | 7 | 25 | 47 | 28 | -3 | 25 | 52 | 23 | 3 | 4 |
| Prices received for finished product | 9 | 78 | 12 | -3 | -3 | 55 | 30 | 15 | 41 | 36 | 51 | 13 | 23 | 20 |
| Prices paid for raw materials | 16 | 65 | 19 | -3 | -2 | 56 | 21 | 23 | 33 | 47 | 40 | 13 | 33 | 35 |
| Capital expenditures | | | | | | 39 | 41 | 20 | 19 | 28 | 50 | 22 | 7 | 12 |
| New orders for exports | 8 | 80 | 11 | -3 | 0 | 13 | 72 | 15 | -3 | 15 | 74 | 11 | 4 | 6 |
| Supplier delivery time | 3 | 89 | 8 | -6 | -6 | 17 | 68 | 15 | 3 | 16 | 75 | 9 | 7 | 4 |
| Inventories: Materials | 28 | 47 | 24 | 4 | 3 | 35 | 34 | 31 | 4 | 27 | 53 | 20 | 7 | 11 |
| Inventories: Finished goods | 24 | 47 | 29 | -6 | -6 | 31 | 40 | 29 | 1 | 27 | 51 | 23 | 4 | 4 |

*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 August survey was open for a five-day period from August 14-19, 2019 and included 77 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Index vs. a Month Ago

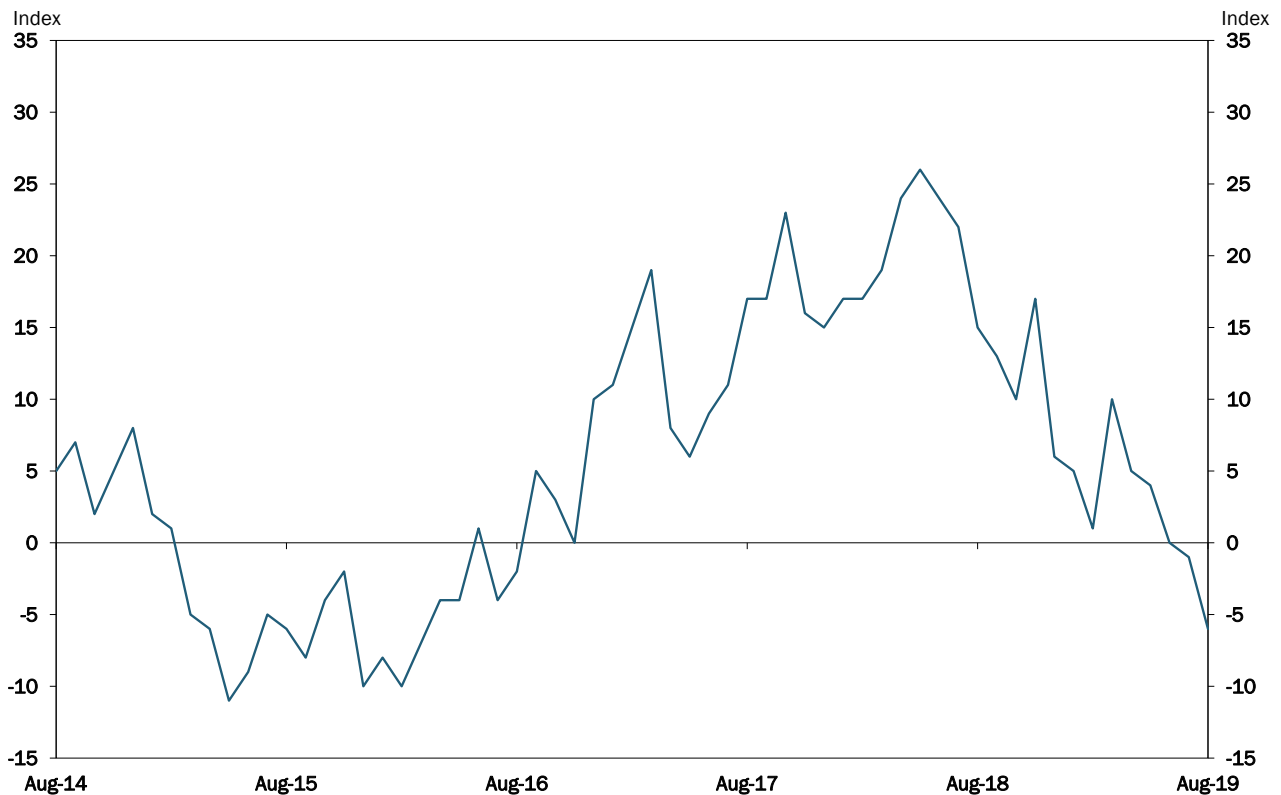


Chart 2. Special Question: How do you expect the most recent round of announcements of U.S. tariffs on Chinese goods will affect your business?

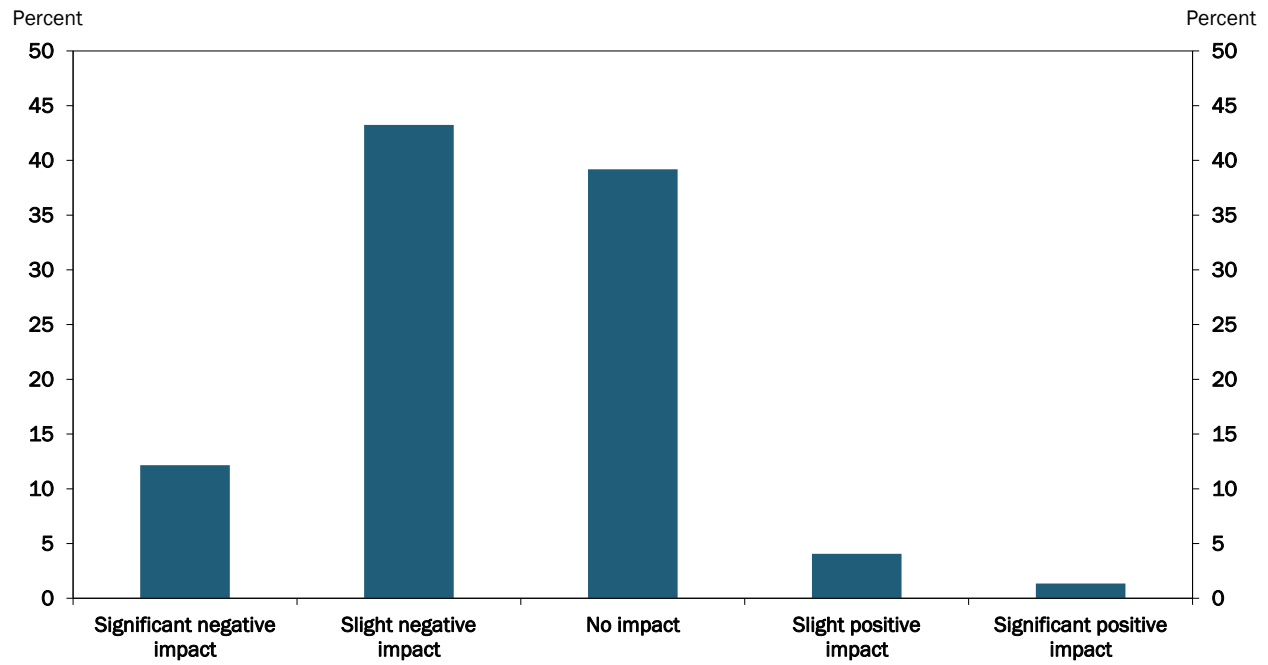


Chart 3. Special Question: How long do you expect trade tensions to persist?

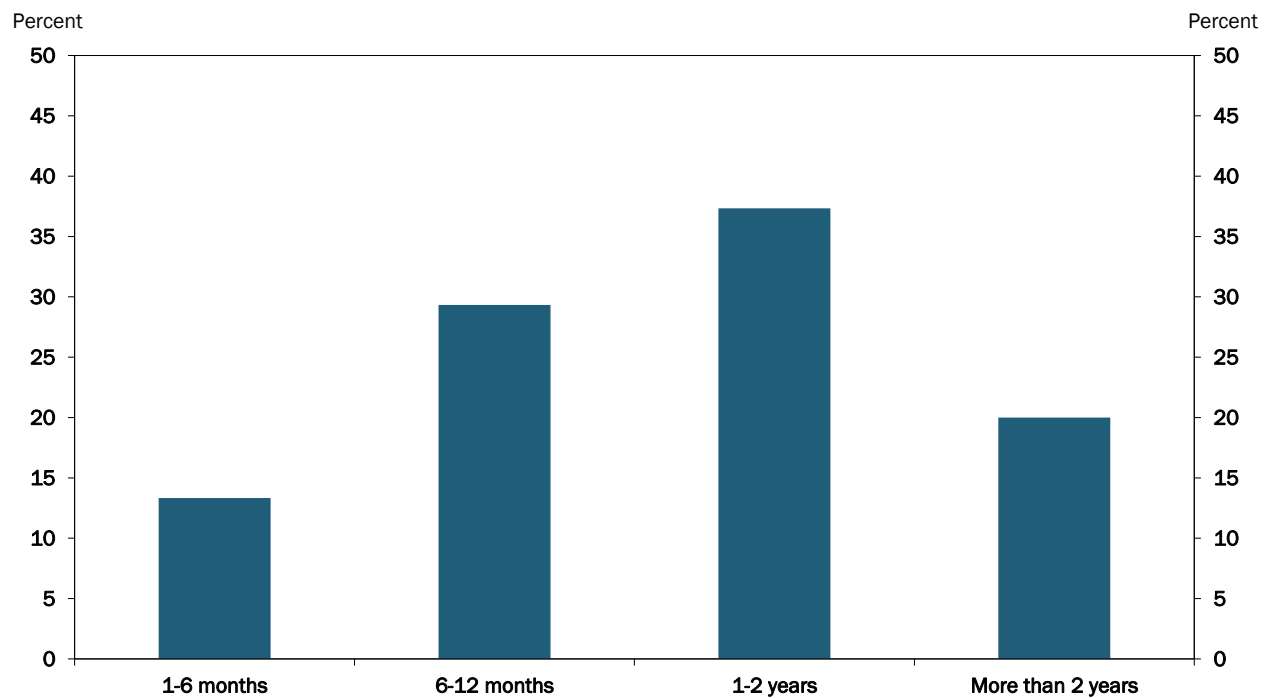


Table 2
Historical Manufacturing Survey Indexes

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