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Tenth District Manufacturing Activity Continued to Grow Modestly
Federal Reserve Bank of Kansas City Releases January Manufacturing Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the January 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 grow modestly, and expectations for future growth remained solid.

"Regional factories had another month of sluggish growth in January," said Wilkerson. "About one-sixth of the firms in the survey said the partial government shutdown had negatively affected their business."

A summary of the January survey is attached. The January survey incorporates new seasonal adjustment factors, so historical indexes differ slightly from previously-released numbers. The new seasonal factors will be used throughout 2019. 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 continued to grow modestly in January, and expectations for future growth remained solid (Chart 1). The month-over-month finished goods price index rose, while the raw materials price index edged lower. Price expectations for the next six months held steady.

Factories Report Slightly Positive Growth in January

The month-over-month composite index was 5 in January, similar to 6 in December, and lower than 17 in November (Table 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The slow and steady increase in factory activity was driven by durable goods producers, particularly wood products, fabricated metals, electrical equipment and appliances, and furniture manufacturing. Month-over-month indexes were somewhat mixed. The production index jumped back into positive territory, while the order backlog index turned negative for the first time since June 2017. Most year-over-year factory indexes eased from the previous month, and the composite index decreased from 38 to 31. Future factory activity expectations remained solid. The future composite index eased slightly from 22 to 18, while the future production index increased.

Special Questions

This month contacts were asked special questions about how the partial federal government shutdown has affected their business, and how credit conditions have changed over the past year. Nearly 17 percent of manufacturing contacts reported negative effects from the federal government shutdown on their business (Chart 3). Of the firms that reported negative effects from the shutdown, most noted permit delays or trade disruptions due to federal agencies being closed. Over the past year, more than 13 percent of firms reported that access to credit had increased while only seven percent of firms said access had decreased (Chart 4). However, 54 percent of contacts reported that the cost of credit increased over the past year.

Selected Manufacturing Comments

“Our business is more impacted by the tension with China and tariffs than with the government shutdown. Prices of steel and plastic have increased by 30-40% and 25% tariffs are putting us in the RED.”

“Tariffs are affecting sales at the consumer end. We are reducing our work force as sales have slowed due to higher costs.”

“Labor is still the issue in the plant. [There is a] shortage of non-skilled laborers.”

“Overall, our business volumes have remained strong. International business was up again in 2018, now at 16% of our business.”

“We are continuing to work towards increasing our capacity, although significant expansion takes at least a year. We are moving at a very measured pace so that we aren’t over-exposed if there is a substantial change in the economic / business environment. We are seeing upward pressures on wages.”

“There are a lot of uncertainties floating around - tariffs, shutdown, political, etc. Settling some of these, especially around tariffs, will help with business confidence.”

“We are debt free but the interest rates impact our customers. We hope to see a stabilization in the economy with more people entering the workforce and the resulting wages supporting continued growth.”

“We are unable to receive data we normally obtain from federal offices due to the federal government shutdown.”

“If the shutdown begins to hurt the general economy or overall consumer confidence we will be negatively impacted.”

“Since the federal government shutdown, there are fewer customer with expendable income, impacting retail sales which impacts our wholesale sales.”

“As yet, we’ve seen no effect from the federal government shutdown but expect to later in the quarter.”

“We cannot export due to federal government agencies not at work.”

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

Plant Level Indicators	January vs. December (percent)* Increase	No Change	Decrease	Diff Index^	SA Index*^	January vs. Year Ago (percent)* Increase	No Change	Decrease	Diff Index^	Expected in Six Months (percent)* Increase	No Change	Decrease	Diff Index^	SA Index*^
Composite Index				3	5				31				19	18
Production	31	35	34	-2	2	49	27	23	26	49	30	20	29	33
Volume of shipments	34	33	33	1	6	48	24	29	19	51	28	21	31	30
Volume of new orders	35	30	35	0	1	52	24	24	28	46	35	19	27	25
Backlog of orders	23	41	35	-12	-13	42	35	23	19	29	54	17	12	17
Number of employees	22	59	19	2	7	53	33	15	38	38	49	13	26	22
Average employee workweek	20	60	20	0	7	32	56	13	19	25	61	14	10	10
Prices received for finished product	26	70	5	21	23	61	30	9	53	46	46	8	38	40
Prices paid for raw materials	32	59	10	22	23	79	11	10	69	57	30	13	44	49
Capital expenditures						44	39	18	26	45	44	12	33	33
New orders for exports	10	71	19	-9	-10	14	69	17	-4	13	71	17	-4	-4
Supplier delivery time	17	79	4	14	14	32	62	6	25	18	74	8	10	13
Inventories: Materials	28	46	26	2	4	50	36	14	36	26	51	23	3	-2
Inventories: Finished goods	29	48	24	5	8	44	40	16	27	24	50	26	-1	-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 January survey was open for a six-day period from January 16-22, 2018 and included 83 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Index vs. a Month Ago

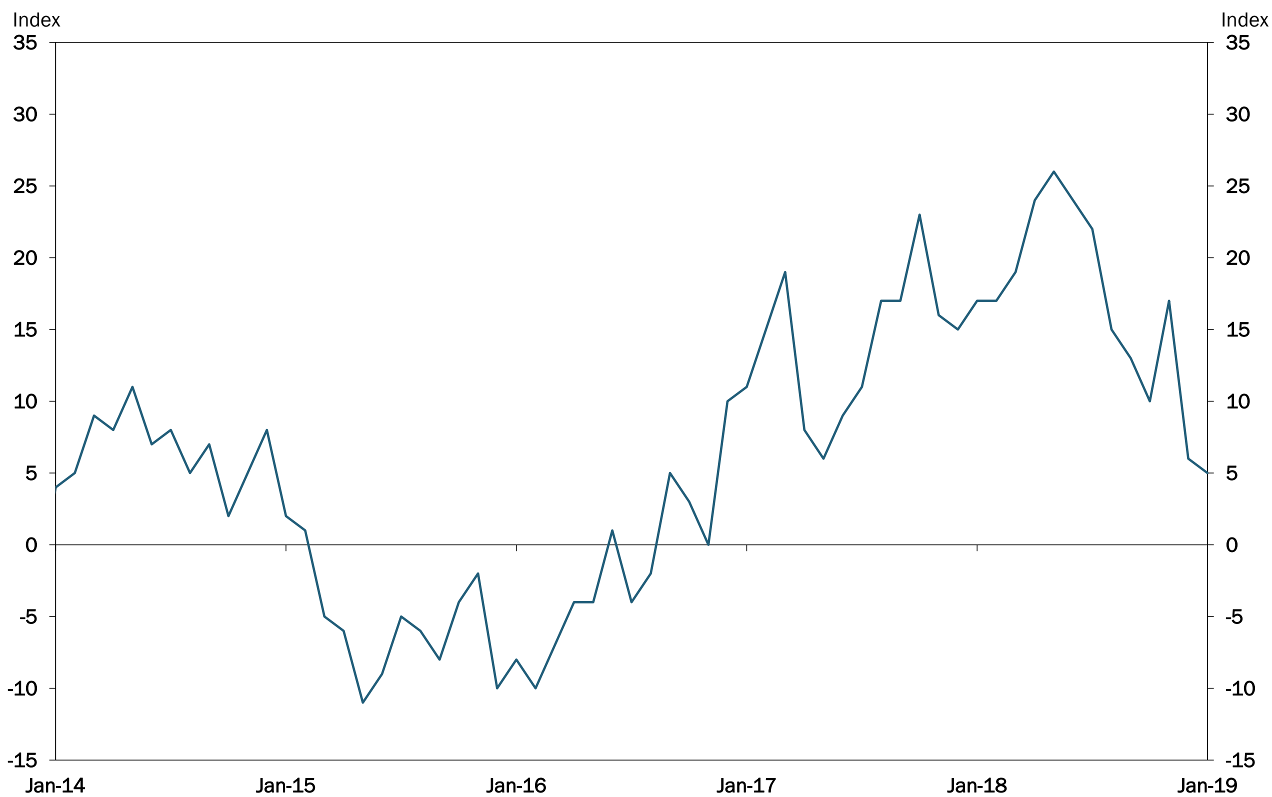

Chart 2. Special Question: How has the federal government shutdown impacted your business?

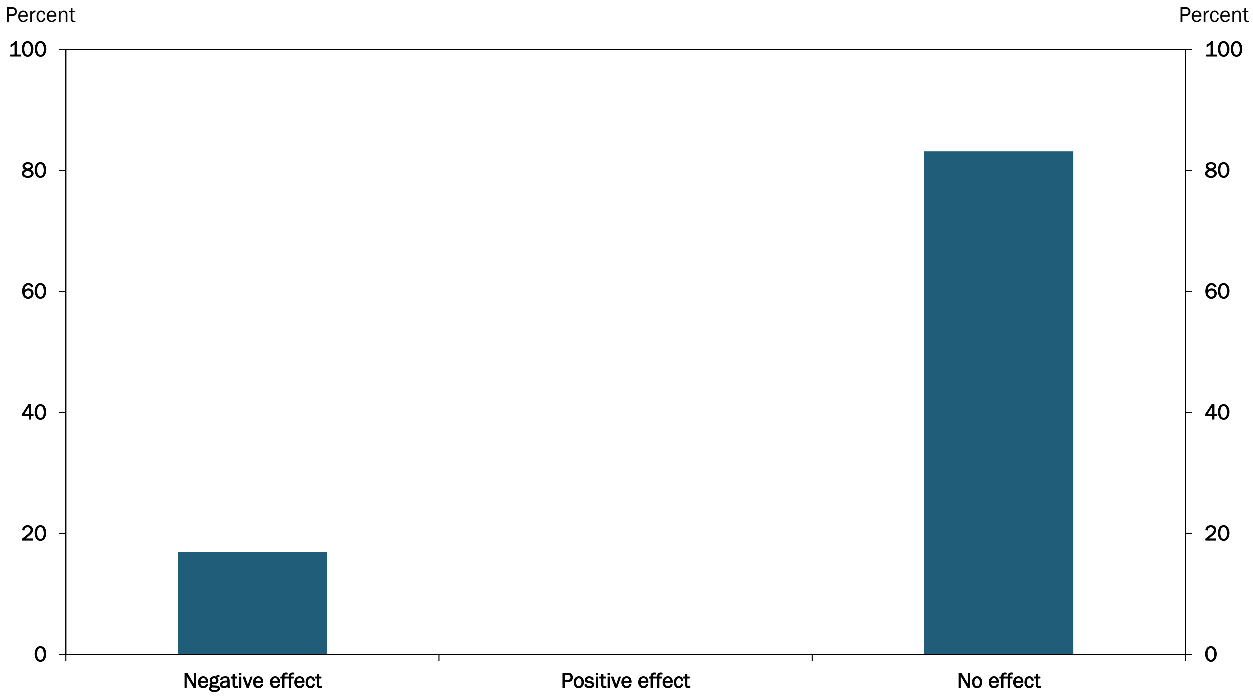

Chart 3. Special Question: Over the past year, how have your firm's credit conditions changed?

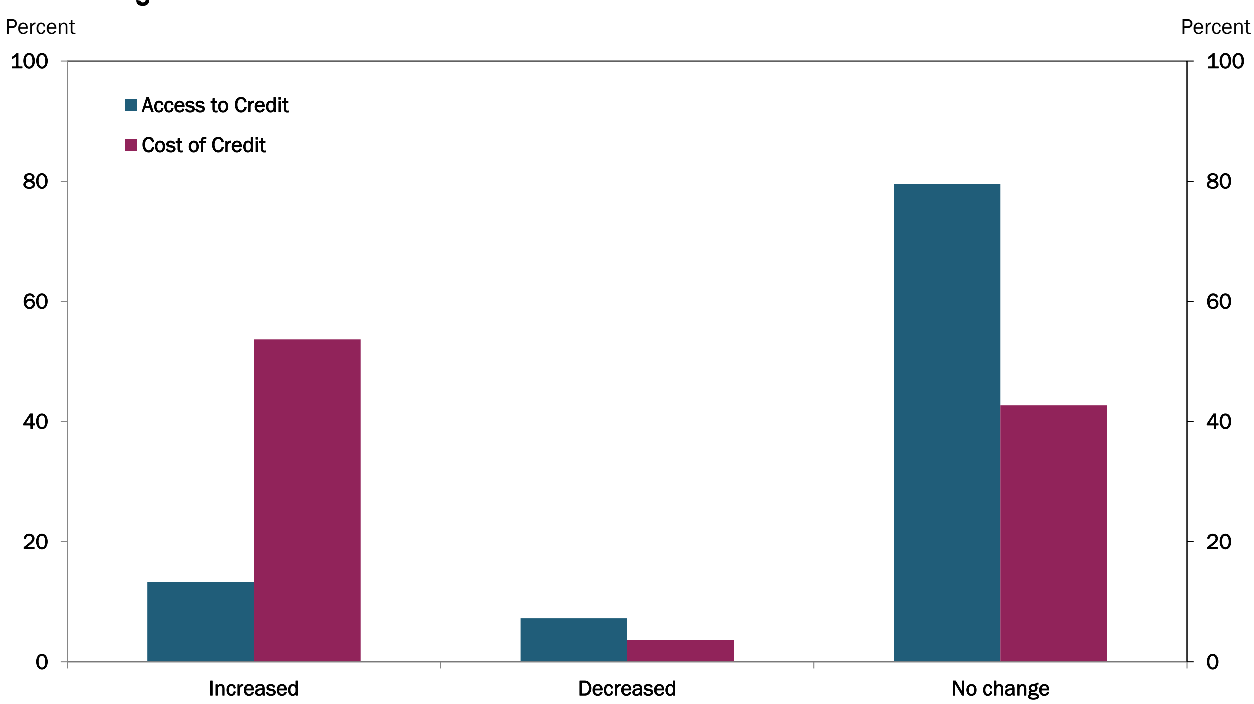

Table 2
Historical Manufacturing Survey Indexes

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