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CONTACT: Pam Campbell

(405) 270-8617

Pam.Campbell@kc.frb.org

Tenth District Manufacturing Activity Accelerated Moderately
Federal Reserve Bank of Kansas City Releases March Manufacturing Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the March 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 accelerated moderately, and expectations for future activity also increased.

“Factories in the region reported an uptick in growth in March, following three straight months in which the pace of growth slowed,” said Wilkerson. “Plans for both hiring and capital spending picked up.”

A summary of the March 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 accelerated moderately in March, and expectations for future activity also increased (Chart 1). The month-over-month finished goods and raw materials price indexes both declined in March, while price expectations for the next six months edged higher.

Factories Report Accelerated Activity in March

The month-over-month composite index was 10 in March, up from 1 in February and 5 in January (Table 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Factories expanded production of both durable and nondurable goods, particularly food and beverage products, as well as wood, paper, and printing manufacturing. Most month-over-month indexes increased in March, with production, shipments, new orders, order backlog, new orders for exports, and materials inventories rebounding back into positive territory. Most year-over-year factory indexes grew in March, and the composite index rose from 23 to 27. The future composite index also climbed up from 13 to 22, as future factory activity expectations increased across the board.

Special Questions

This month contacts were asked special questions about their expectations for capital spending. Nearly 48 percent of manufacturing contacts indicated they expect spending on new plant and equipment to increase over the next 6 to 12 months relative to actual spending over the past 6 to 12 months (Chart 2). Only 11 percent of firms expect to decrease capital spending. Almost 24 percent of contacts affirmed the recent changes in business and consumer confidence had an effect of increasing their capital spending plans. Of the contacts who marked plans to increase capital spending, more than half noted expectations of high sales growth and high capacity utilization as major drivers behind their spending plans (Chart 3). Additionally, more than 42 percent of contacts with plans to increase capital spending indicated they needed to replace other capital goods.

Selected Manufacturing Comments

“Our outlook is still conservative growth for the next calendar quarter. We continue to be concerned about human capital, rising wages, and some minor supply issues. Our quality is slipping somewhat because of the high turnover of employees although we are seeing some stabilization with workforce turnover.”

“Effect of the September 2018 tariffs are starting to be seen on the retail shelves. All price increases go to the consumer.”

“Our business outlook is very good and our sales forecast is very solid for the balance of this year. We increased our capital spending last year to accommodate our increased sales this year. The biggest concern we have this year is the lack of available entry level people for hire.”

“Slow start to the year. We have lost a couple of good customers due to upcoming price increase announcements. They are unwilling to take the price increase.”

“Business continues to be good. We are executing an aggressive capital plan in a manner that doesn’t over expose us if there is an adverse change in the economy.”

“We believe the economy is performing very well right now. We are challenged with labor availability and some inflation but it is currently manageable and seems to correspond with strong demand. Our greatest challenge has been increasing overall output due to retirements reducing internal efficiencies.”

“We will increase capital spending regardless of the provisions of the 2017 tax bill. We need production equipment upgrades to increase overall efficiency and keep up technologically.”

“There is a tax advantage to the accelerated depreciation that incentivizes investment in plant and equipment.”

“We had a substantial amount of capital spending in 2018 that addressed our needs so we will not be increasing capital spending over the next 6 to 12 months.”

“We will continue to invest in equipment that increases our efficiency, improves product quality, and/or lowers costs.”

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

Plant Level Indicators	March vs. February (percent)*				March 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				14	10				27				21	22
Production	39	43	19	20	17	53	24	24	29	47	33	20	27	28
Volume of shipments	38	41	22	16	14	54	20	25	29	50	31	19	31	33
Volume of new orders	36	43	21	15	4	53	19	28	25	49	32	19	29	29
Backlog of orders	29	54	16	13	9	37	38	25	11	33	51	16	17	17
Number of employees	26	63	11	15	14	50	34	16	34	42	47	10	32	34
Average employee workweek	23	68	9	14	14	28	55	17	12	25	62	13	13	13
Prices received for finished product	16	77	6	10	7	65	24	11	53	44	49	6	38	39
Prices paid for raw materials	28	63	9	19	15	74	16	10	64	55	37	8	47	45
Capital expenditures						37	41	22	15	34	58	8	27	31
New orders for exports	13	79	8	4	5	17	76	7	10	15	75	10	6	6
Supplier delivery time	10	85	5	5	8	24	65	10	14	21	72	7	14	15
Inventories: Materials	29	54	17	13	9	47	40	13	35	24	57	20	4	7
Inventories: Finished goods	26	58	16	10	0	44	39	17	27	25	54	21	4	6

*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 March survey was open for a five-day period from March 20-25, 2019 and included 80 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Index vs. a Month Ago

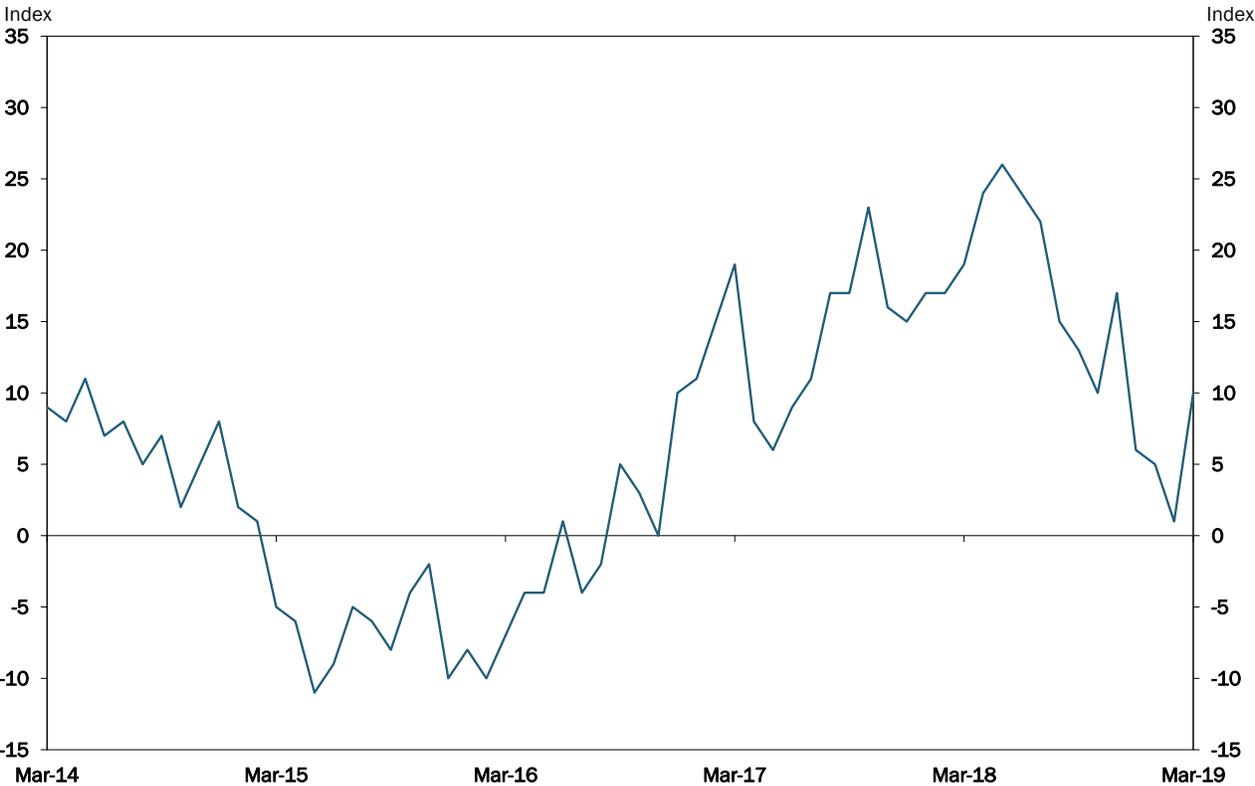


Chart 2. Special Question: Changes to capital spending plans

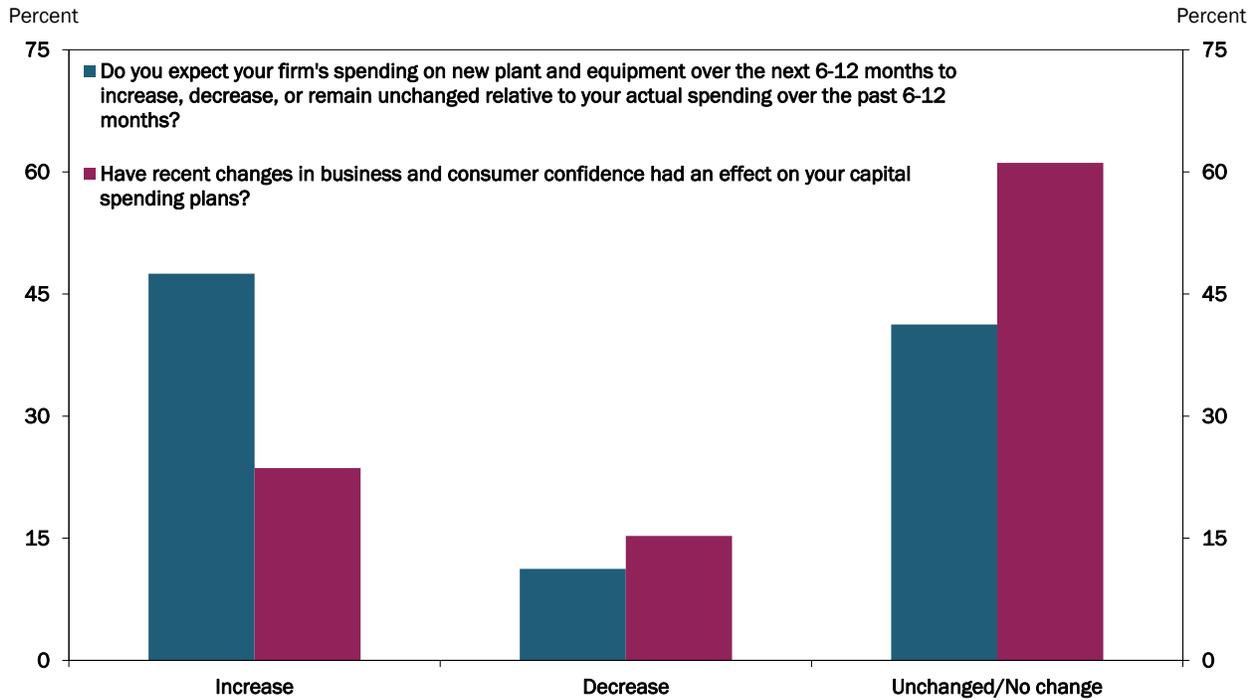


Chart 3. Special Question: What are the major factors behind your plan to increase capital spending? Please check any that apply.

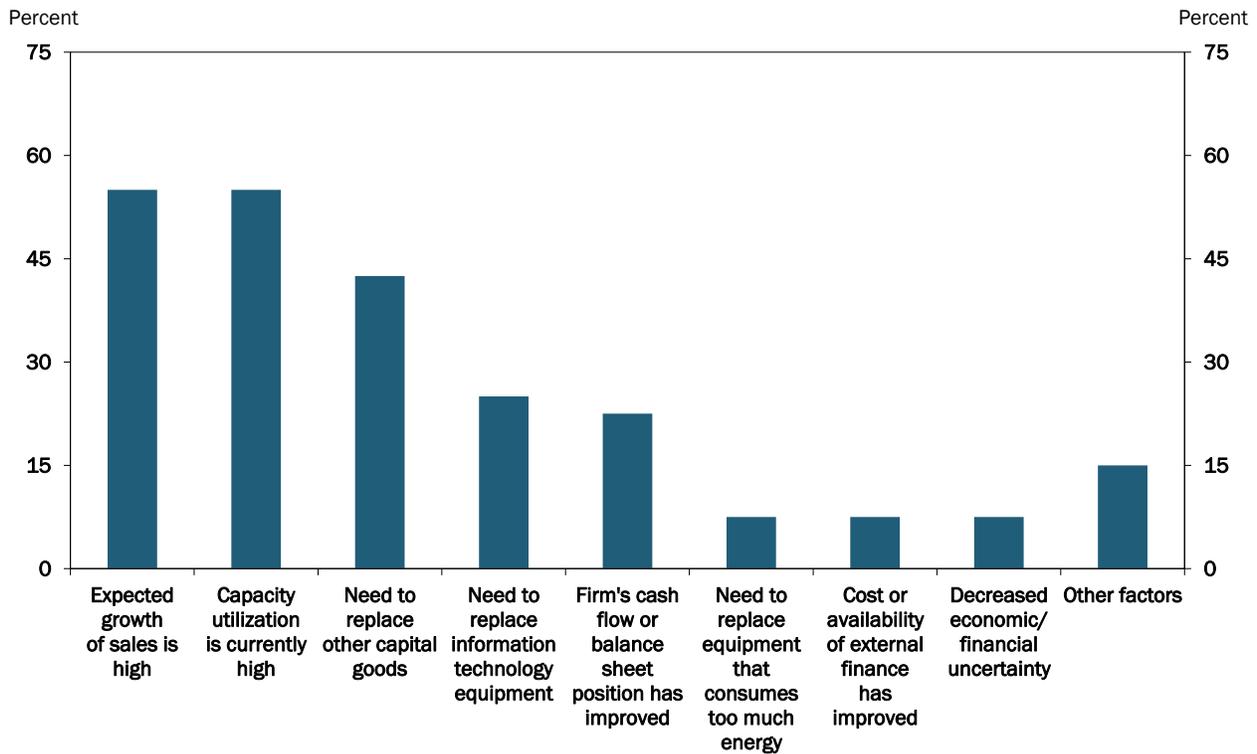


Table 2
Historical Manufacturing Survey Indexes

	Mar'18	Apr'18	May'18	Jun'18	Jul'18	Aug'18	Sep'18	Oct'18	Nov'18	Dec'18	Jan'19	Feb'19	Mar'19
Versus a Month Ago (seasonally adjusted)													
Composite Index	19	24	26	24	22	15	13	10	17	6	5	1	10
Production	24	29	36	29	22	10	12	8	27	-13	2	-4	17
Volume of shipments	15	32	37	31	22	17	2	14	33	3	6	-14	14
Volume of new orders	3	32	32	25	20	13	13	9	22	7	1	-10	4
Backlog of orders	14	26	24	12	11	9	7	7	19	9	-13	-18	9
Number of employees	24	24	22	23	25	15	3	10	9	10	7	10	14
Average employee workweek	13	12	21	23	12	1	4	5	5	3	7	0	14
Prices received for finished product	23	27	22	23	25	25	23	20	26	8	23	18	7
Prices paid for raw materials	52	49	50	47	50	44	44	37	45	34	23	19	15
Capital expenditures	n/a												
New orders for exports	2	1	8	5	5	0	2	2	5	-6	-10	-2	5
Supplier delivery time	30	17	22	21	27	18	17	9	10	7	14	10	8
Inventories: Materials	12	18	19	24	17	17	18	11	14	19	4	-2	9
Inventories: Finished goods	5	6	11	15	10	9	10	8	11	12	8	4	0
Versus a Year Ago (not seasonally adjusted)													
Composite Index	37	36	45	43	44	37	41	45	40	38	31	23	27
Production	45	40	56	45	48	34	44	54	39	35	26	13	29
Note: The January survey was open for a	36	34	56	51	44	32	42	50	47	39	19	10	29
Volume of new orders	44	43	54	53	49	44	46	57	46	37	28	15	25
Backlog of orders	31	38	41	35	43	35	41	40	34	35	19	16	11
Number of employees	37	35	49	48	47	33	36	49	49	46	38	44	34
Average employee workweek	23	28	37	44	33	25	24	30	30	31	19	4	12
Prices received for finished product	49	60	56	60	60	50	56	60	61	56	53	52	53
Prices paid for raw materials	74	74	77	79	86	67	79	78	75	79	69	73	64
Capital expenditures	19	26	33	32	39	43	47	30	48	43	26	11	15
New orders for exports	12	10	13	7	13	9	11	11	20	10	-4	-6	10
Supplier delivery time	30	28	37	31	42	39	35	27	23	26	25	19	14
Inventories: Materials	30	32	28	36	32	34	45	37	42	49	36	24	35
Inventories: Finished goods	19	12	24	26	23	30	31	21	33	34	27	14	27
Expected in Six Months (seasonally adjusted)													
Composite Index	32	31	25	35	33	29	27	21	18	22	18	13	22
Production	43	44	30	49	46	42	37	37	28	24	33	18	28
Volume of shipments	43	45	39	48	48	39	34	34	27	25	30	15	33
Volume of new orders	41	33	28	42	37	36	35	35	26	23	25	13	29
Backlog of orders	30	27	24	25	27	18	18	25	10	7	17	4	17
Number of employees	36	35	35	36	40	33	29	16	23	37	22	28	34
Average employee workweek	17	22	13	30	13	15	14	9	13	17	10	5	13
Prices received for finished product	47	50	45	41	43	28	43	39	30	41	40	34	39
Prices paid for raw materials	69	65	65	66	67	41	57	43	42	50	49	43	45
Capital expenditures	35	36	33	35	37	29	35	16	26	33	33	12	31
New orders for exports	13	11	11	8	9	9	14	9	20	9	-4	-3	6
Supplier delivery time	22	26	27	19	26	20	18	13	9	17	13	12	15
Inventories: Materials	20	18	6	29	15	14	15	5	6	7	-2	-4	7
Inventories: Finished goods	14	10	3	23	7	10	9	-4	8	9	-5	2	6