

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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FOR RELEASE Thursday, May 22, 2014
EMBARGOED FOR 10 A.M. CENTRAL TIME
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GROWTH IN TENTH DISTRICT MANUFACTURING ACTIVITY EXPANDED SOLIDLY *Federal Reserve Bank of Kansas City Releases May Manufacturing Survey*

KANSAS CITY, Mo. The Federal Reserve Bank of Kansas City released the May Manufacturing Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that growth in Tenth District manufacturing activity expanded solidly, and producers' expectations for future factory activity remained at healthy levels.

"This was the third straight month of solid growth at factories in the region, following some weather-related weakness in previous months", said Wilkerson. "More factories than in recent surveys were also able to raise selling prices."

A summary of the May 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 solidly in May, and producers' expectations for future factory activity remained at healthy levels. Most price indexes increased somewhat, particularly current selling prices.

The month-over-month composite index was 10 in May, up from 7 in April and equal to 10 in March (Tables 1 & 2, Chart). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Manufacturing activity improved slightly at most durable goods-producing plants, particularly for machinery and construction materials, but remained mostly flat for non-durable products. Other month-over-month indexes were mixed. The production index inched higher from 12 to 14, and the new orders and employment indexes also rose. In contrast, the shipments index fell from 14 to 5, and the order backlog and new orders for exports indexes also decreased. The raw materials inventory index increased from -1 to 11, and the finished goods inventory index also edged up.

Year-over-year factory indexes were also mixed. The composite year-over-year index recorded little change, while the production, shipments, and employment indexes rose to their highest levels in over a year. The capital expenditures index rebounded after falling last month, but the new orders and order backlog indexes decreased modestly. Both inventory indexes fell after rising last month.

Future factory indexes slowed somewhat in May but remained at healthy levels. The future composite index dropped from 21 to 13, and the future production, shipments, and new orders indexes also eased. The future order backlog index decreased from 20 to 9, and the future employment index also edged down. The future capital expenditures index remained solid following a strong rebound in April. The future finished goods inventory index rose from 0 to 2, while the future raw materials inventory index was unchanged.

Most price indexes increased for the second straight month. The month-over-month raw materials price index moved from 21 to 28, and the finished goods price index jumped from 2 to 14, its highest level in nearly three years. The year-over-year raw materials index increased from 59 to 65, and the finished goods price index also increased. The future raw materials price index rose from 46 to 53, while the future finished goods price index was basically unchanged, indicating the same number of firms plan to pass recent cost increases through to customers.

SELECTED COMMENTS

“In order to meet our labor needs, we are going to spend more capital on training materials and programs to train our workers in-house.”

“We are having trouble finding employees willing to do blue-collar work, particularly CDL drivers and laborers. It is also hard for us to compete with the wages paid in the oil and gas industry.”

“We are getting qualified candidates who are coming from an area that has a much higher cost of living, and are expecting a wage that is unreasonable for the Midwest.”

“We ship to many countries. The health of the local economies directly affects our exports to them. More trade agreements would be helpful.”

“Export business is down 14 percent year-to-date without the loss of accounts. Smaller orders are being placed with lower inventory on hand.”

“We use temporary labor in the factory during times of increased demand. It has been difficult to get good temps because the labor market has improved. We also have trouble keeping good temps because they are often finding permanent positions faster than in the past year.”

“Export sales are depressed in all countries, due to drought and commodity prices. Russian and Ukrainian sales have ceased due to the political turmoil.”

“Demand is high for semiconductors at the current time. This is related to economic recovery and new electronics in the marketplace.”

“Russia has been our primary export customer but all of our pending projects for the country are currently on hold because of the issues between our governments.”

Table 1
Summary of Tenth District Manufacturing Conditions, May 2014

Plant Level Indicators	May vs. April (percent)*					May vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index [^]	SA Index** [^]	Increase	Change	Decrease	Diff Index [^]	Increase	Change	Decrease	Diff Index [^]	SA Index** [^]
Composite Index				14	10				15				14	13
Production	40	42	18	23	14	50	27	22	28	45	29	25	21	18
Volume of shipments	37	39	24	14	5	50	26	23	27	47	29	22	25	24
Volume of new orders	37	42	20	18	11	40	32	25	15	38	45	15	24	22
Backlog of orders	26	47	23	4	0	29	43	22	8	28	50	17	12	9
Number of employees	26	59	14	13	10	38	37	25	14	32	53	15	18	16
Average employee workweek	26	64	10	17	14	19	65	15	4	25	61	14	11	10
Prices received for finished product	17	76	5	12	14	47	40	10	37	36	56	6	30	32
Prices paid for raw materials	29	67	2	27	28	70	24	5	65	54	37	5	49	53
Capital expenditures						34	47	17	18	33	52	13	21	19
New orders for exports	8	74	10	-2	-3	18	59	15	3	17	66	10	7	4
Supplier delivery time	12	82	6	6	5	20	72	9	11	16	75	6	10	10
Inventories:														
Materials	28	56	16	13	11	33	42	25	9	25	50	25	0	1
Finished goods	22	61	16	6	4	25	48	25	-1	22	54	22	0	2

*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 May survey included 102 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Composite Index vs. a Month Ago

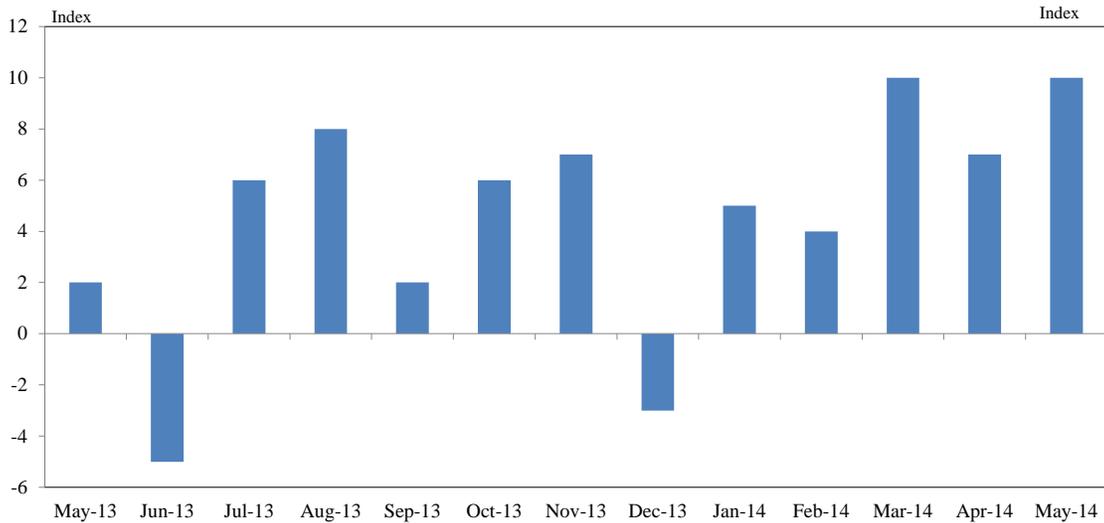


Table2
Historical Manufacturing Survey Indexes

	May'13	Jun'13	Jul'13	Aug'13	Sep'13	Oct'13	Nov'13	Dec'13	Jan'14	Feb'14	Mar'14	Apr'14	May'14
Versus a Month Ago (seasonally adjusted)													
Composite Index	2	-5	5	6	2	6	6	-3	5	4	10	7	10
Production	4	-19	19	16	4	11	9	-13	-8	3	22	12	14
Volume of shipments	7	-17	16	12	6	11	3	-10	3	10	16	14	5
Volume of new orders	5	-7	5	10	7	4	14	1	5	5	13	9	11
Backlog of orders	-7	-4	-7	-2	-2	-2	12	-5	-1	-4	-1	4	0
Number of employees	-5	-1	-1	2	0	-1	4	0	11	3	0	3	10
Average employee workweek	-7	-12	-5	7	-4	1	3	-2	-6	1	3	6	14
Prices received for finished product	-1	3	1	5	4	8	7	2	8	7	10	2	14
Prices paid for raw materials	14	16	17	21	15	26	16	15	19	16	16	21	28
Capital expenditures	n/a												
New orders for exports	-6	-4	0	2	-6	-1	-3	-6	4	-1	6	0	-3
Supplier delivery time	5	1	0	0	0	4	-1	-2	9	0	5	11	5
Inventories: Materials	0	2	2	0	-1	10	3	-1	6	10	8	-1	11
Inventories: Finished goods	-1	3	0	2	1	9	-2	1	3	3	2	2	4
Versus a Year Ago (not seasonally adjusted)													
Composite Index	0	3	2	11	10	7	9	3	8	8	12	14	15
Production	0	7	7	10	15	8	14	-4	8	10	15	22	28
Volume of shipments	5	6	9	13	19	8	17	-8	11	13	11	18	27
Volume of new orders	-2	5	-3	18	16	12	21	6	8	7	24	19	15
Backlog of orders	-15	-10	-21	-1	5	2	6	-3	-2	0	4	20	8
Number of employees	-3	5	5	14	5	4	4	7	7	7	7	7	14
Average employee workweek	-13	-3	0	6	2	-7	4	2	-8	2	0	6	4
Prices received for finished product	26	30	40	39	40	32	32	27	36	36	39	33	37
Prices paid for raw materials	50	50	42	46	38	48	39	40	48	37	57	59	65
Capital expenditures	11	16	11	15	16	7	15	15	19	18	20	14	18
New orders for exports	-7	-1	-1	3	-5	-3	3	-3	3	-1	6	4	3
Supplier delivery time	12	6	3	5	5	8	5	1	8	4	5	11	11
Inventories: Materials	-7	-6	-2	9	7	3	0	3	10	10	7	12	9
Inventories: Finished goods	-2	-1	4	13	13	9	-2	4	8	7	6	10	-1
Expected in Six Months (seasonally adjusted)													
Composite Index	12	11	7	8	16	8	12	15	26	11	11	21	13
Production	17	22	17	16	32	19	20	30	45	24	28	38	18
Volume of shipments	20	24	14	15	28	17	25	32	47	24	25	37	24
Volume of new orders	19	24	19	11	19	15	17	24	35	23	30	33	22
Backlog of orders	9	13	0	6	11	8	7	8	22	15	9	20	9
Number of employees	9	7	7	9	11	3	20	15	29	6	2	22	16
Average employee workweek	1	1	2	1	3	-3	9	8	9	-1	5	12	10
Prices received for finished product	24	23	24	26	25	24	20	18	30	25	21	31	32
Prices paid for raw materials	46	47	39	46	37	41	32	27	47	35	38	46	53
Capital expenditures	18	15	12	13	16	16	16	12	26	24	9	21	19
New orders for exports	4	13	-2	8	7	5	8	2	13	5	4	7	4
Supplier delivery time	13	4	6	6	16	3	3	5	10	2	2	11	10
Inventories: Materials	0	-2	-12	-1	1	1	1	-1	9	-1	-8	1	1
Inventories: Finished goods	-1	0	-10	1	2	-2	-2	-5	-1	6	-5	0	2