

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING ACTIVITY CONTINUED TO EXPAND RAPIDLY *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 Tenth District manufacturing activity continued to expand at a rapid pace, and optimism remained high for future activity.

“Our composite index rose to another record high in May, with continued optimism for future growth,” said Wilkerson. “Prices indexes were stable but remained at high levels.”

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 continued to expand rapidly, with the composite index at its highest level in survey history for the second consecutive month. In addition, contacts remained optimistic about future activity. Price indexes were little changed, but generally remained at high levels.

The month-over-month composite index was 29 in May, up from readings of 26 in April and 17 in March (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. Factory activity increased at both durable and nondurable goods plants, particularly at nondurable plants producing chemicals and food. Most month-over-month indexes continued to rise. The production index jumped from 33 to 41, and the shipments, new orders, and new orders for exports indexes also moved higher. In contrast, the order backlog and employment indexes eased somewhat. The raw materials inventory index edged up from 17 to 19, and the finished goods inventory index also increased.

Year-over-year factory indexes increased considerably over the previous month. The composite index rose from 36 to 45, and the production, shipments, order backlog, and new orders indexes also moved higher. The capital expenditures index jumped from 26 to 33, and the employment index reached its highest level in survey history. The raw materials inventory index inched lower from 32 to 28, while the finished goods inventory index increased.

Future factory activity expectations moderated slightly but remained solid overall. The future composite index slipped from 31 to 26, and the future production, shipments, new orders and order backlog indexes also fell somewhat. The future capital expenditures index eased from 37 to 33, while the future employment index was unchanged. The future raw materials inventory index decreased from 19 to 7, and the future finished goods inventory index also edged lower.

Most price indexes were little changed in May but remained at high levels. The month-over-month finished goods price index eased from 29 to 22, while the raw materials price index was basically unchanged. The year-over-year finished goods price index slipped from 60 to 56, while the year-over-year raw materials price index inched higher. The future finished goods price index fell from 53 to 44, and the future raw materials price index moderated slightly.

SELECTED COMMENTS

“A very strong month for sales across all markets and weather was not the deciding factor - individual spend was.”

“They say there are workers out there but we can’t find them. We are looking at raising our starting pay again. That will be our 3rd increase in 18 months. We get people here to work but they walk off the job because they don’t like the work. Hard to manage staffing when that happens.”

“Steel tariffs continue to be a strong headwind. When Trump decided not to make a final decision until June 1 all that did was raise pricing by the domestic suppliers again and keep the foreign suppliers out as they did not know what their tariff rates would be if at all. Some stability in the marketplace would be nice.”

“We have seen a slow start to 2018 that we haven’t seen in quite some time. We are looking at ways to cut overhead expenses to remain competitive and reinventing our business model to be more effective in a competitive market.”

“Business is good, but the energy sector is still slow compared to historical standards.”

“We need more money spent on transportation infrastructure. Our costs have gone up, we have a hard time raising prices and we have not received any benefit to lower corporate tax rate.”

“Our production is on record pace for this year due to increased drilling in the oil and gas industry. The economy is strong in our areas of production but continued rising oil prices will eventually set the industry up for a fall.”

“Work force availability is a big issue right now. Hiring skilled and relatively unskilled labor is very difficult.”

Table 1
Summary of Tenth District Manufacturing Conditions, May 2018

Plant Level Indicators	May vs. April (percent)*					May vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	No		Diff	SA	Index^	No		Diff	Index^	No		Diff	SA	
	Increase	Change				Increase	Change			Increase	Change			
Composite Index				28	29			45				23	26	
Production	51	40	10	41	41	67	22	11	56	46	34	20	27	32
Volume of shipments	55	33	13	43	42	68	20	12	56	53	27	20	33	39
Volume of new orders	49	37	14	36	38	64	26	10	54	43	39	19	24	26
Backlog of orders	39	50	11	28	27	53	34	13	41	37	44	19	19	24
Number of employees	34	53	13	20	24	62	24	13	49	43	45	12	30	35
Average employee workweek	27	68	5	22	24	46	46	9	37	26	58	16	10	12
Prices received for finished product	27	68	5	22	22	64	27	9	56	48	48	5	43	44
Prices paid for raw materials	57	38	5	52	53	84	9	7	77	68	24	7	61	63
Capital expenditures						48	38	15	33	36	58	6	30	33
New orders for exports	14	80	6	8	9	21	72	8	13	17	76	7	11	11
Supplier delivery time	30	63	6	24	23	44	48	7	37	36	57	7	28	30
Inventories: Materials	37	46	17	20	19	46	37	17	28	25	56	20	5	7
Inventories: Finished goods	27	56	17	10	11	42	39	18	24	25	52	23	3	3

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

Chart 1. Composite Index vs. a Month Ago

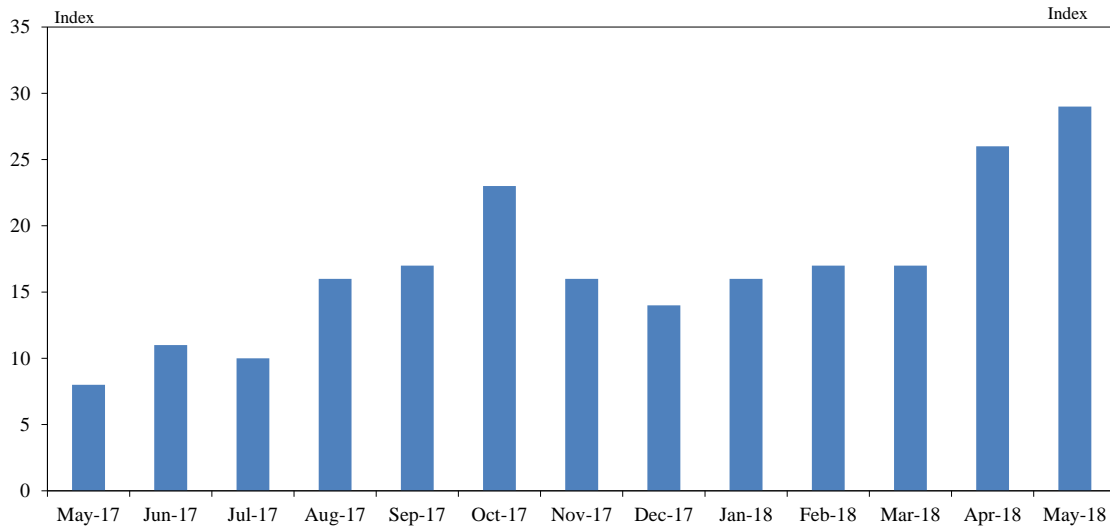


Table2
Historical Manufacturing Survey Indexes

	May'17	Jun'17	Jul'17	Aug'17	Sept'17	Oct'17	Nov'17	Dec'17	Jan'18	Feb'18	Mar'18	Apr'18	May'18
Versus a Month Ago (seasonally adjusted)													
Composite Index	9	12	12	16	18	22	15	13	16	17	17	26	29
Production	1	22	10	22	21	18	15	16	16	21	20	33	41
Volume of shipments	3	22	0	23	24	20	19	10	14	24	12	37	42
Volume of new orders	11	8	13	24	15	24	19	11	14	16	-1	37	38
Backlog of orders	12	-5	1	13	9	22	13	8	20	13	14	29	27
Number of employees	12	15	16	14	18	19	16	16	18	23	26	26	24
Average employee workweek	4	8	4	9	7	10	6	10	2	11	15	10	24
Prices received for finished product	8	-1	6	8	12	11	11	11	21	26	24	29	22
Prices paid for raw materials	19	19	20	23	25	22	24	15	34	50	55	52	53
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	4	3	-2	4	6	6	-1	4	6	2	1	1	9
Supplier delivery time	13	9	10	10	22	19	8	13	18	16	30	17	23
Inventories: Materials	5	4	11	10	13	28	16	7	15	8	11	17	19
Inventories: Finished goods	2	-1	5	2	-6	18	3	-8	3	4	9	4	11
Versus a Year Ago (not seasonally adjusted)													
Composite Index	18	28	24	23	35	34	37	30	35	38	37	36	45
Production	20	43	28	27	56	41	51	36	40	51	45	40	56
Volume of shipments	16	39	33	29	49	42	49	39	39	54	36	34	56
Volume of new orders	28	35	38	27	47	45	41	38	37	55	44	43	54
Backlog of orders	27	20	22	18	37	34	42	20	42	47	31	38	41
Number of employees	19	24	23	22	30	30	32	35	31	39	37	35	49
Average employee workweek	13	11	15	20	31	26	35	28	30	28	23	28	37
Prices received for finished product	16	15	20	29	38	33	35	37	49	51	49	60	56
Prices paid for raw materials	45	48	45	48	56	61	64	55	65	71	74	74	77
Capital expenditures	16	13	15	21	26	21	19	39	34	37	19	26	33
New orders for exports	5	7	0	9	10	9	9	8	15	18	12	10	13
Supplier delivery time	15	15	19	23	27	26	18	25	27	20	30	28	37
Inventories: Materials	8	22	10	18	16	30	45	15	38	23	30	32	28
Inventories: Finished goods	17	11	7	6	2	15	28	8	15	18	19	12	24
Expected in Six Months (seasonally adjusted)													
Composite Index	30	25	21	24	26	30	26	23	29	38	33	31	26
Production	48	42	31	39	40	45	42	29	37	56	42	44	32
Volume of shipments	44	39	36	39	39	42	38	28	32	49	42	47	39
Volume of new orders	43	38	28	39	29	47	32	24	36	49	42	30	26
Backlog of orders	31	14	13	20	21	31	26	13	30	32	30	26	24
Number of employees	28	32	28	27	28	33	30	36	33	41	36	35	35
Average employee workweek	17	11	17	2	9	27	14	10	23	25	17	23	12
Prices received for finished product	26	23	13	30	29	31	38	31	44	53	48	53	44
Prices paid for raw materials	36	49	40	41	42	44	59	49	58	73	72	66	63
Capital expenditures	23	17	18	19	15	21	19	22	38	36	37	37	33
New orders for exports	16	12	0	5	9	15	8	9	19	16	14	12	11
Supplier delivery time	22	12	14	13	16	10	14	18	25	18	23	28	30
Inventories: Materials	10	3	6	-1	14	16	12	7	15	23	21	19	7
Inventories: Finished goods	14	8	15	-5	10	14	9	12	19	11	15	11	3