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Tenth District Manufacturing Activity Increased at a Faster Pace
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 increased at a faster pace in January compared to a month ago and was similar to year ago levels. Expectations for future activity rose further.

“Regional factories reported more growth in January,” said Wilkerson. “COVID-19 vaccination is a key factor in manufacturers’ overall business outlook for 2021, but with less impact on hiring and capital spending in the near-term.”

Historical data, results from past surveys and release dates for future surveys can be found at www.kansascityfed.org/research/indicatorsdata/mfg. Due to the unique nature of the pandemic in 2020, historical seasonally adjusted data has not changed unlike in previous years. The volatile data observed in 2020 is not indicative of future seasonal trends and the Federal Reserve Bank of Kansas City will continue using the Census Bureau’s X-13 ARIMA SEATS seasonal adjustment protocol moving forward.

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 increased at a faster pace in January compared to a month ago and was similar to year ago levels (Chart 1, Tables 1 & 2). Expectations for future activity rose further. Prices paid for raw materials continued to rise rapidly, to the highest reading since 2011. Prices for finished goods also expanded from a month ago and a year ago. District firms expected prices for both raw materials and finished goods to increase further in the next six months.

Factory Activity Increased at a Faster Pace

The month-over-month composite index was 17 in January, up from 14 in December and 11 in November (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Activity rose more at durable goods plants, driven by manufacturing of primary metals, machinery, electronics, and transportation equipment. Production, shipments, new orders, employment, employee workweeks, new orders for exports, and supplier delivery time increased further in January and order backlog expanded at a steady pace. Materials inventories remained positive while finished goods inventories were slightly negative. Year-over-year factory indexes were somewhat mixed in January, but the composite index was flat at 0. The future composite index expanded to the highest level in over a year at 24, up from 17 in December.

Special Questions

This month contacts were asked special questions about the potential effects of widespread COVID-19 vaccination on business activity. 93% of contacts indicated widespread COVID-19 vaccination is important to their firm's overall business outlook for 2021, with 40% indicating it is "somewhat important" and 53% calling it "very important" (Chart 2). Many contacts remarked on the need for a vaccine for both workers and consumers to increase business. Contacts also noted that continued COVID-19 outbreaks or related government shutdowns would have a significant negative impact in the near-term. For hiring, 14% of contacts indicated the COVID-19 vaccine rollout has negatively affected plans for 2021 because of the slow rollout so far (Chart 3). On the other hand, 8% of contacts noted the vaccine rollout has positively affected hiring plans for later in 2021. For capital spending, 15% of firms indicated the vaccine rollout has had negative effects on plans for 2021 again because of delays and hesitant demand from consumers. Conversely, 14% of firms reported positive capital spending plans for 2021 based on the vaccine rollout. Overall, many firms noted the vaccine rollout has had no serious impact on hiring and capital spending plans in 2021 because it is "too early" to tell or vaccine rollout is "too slow" to change plans.

Selected Manufacturing Comments

“If we want to get our economy back on track our country needs to put a priority on getting the population vaccinated.”

“Our business levels are up vs. last year already. The vaccine will help the general economy, which should increase our business even more.”

“We are hopeful that bipartisanship will reemerge, stimulus will be strong and that the vaccine rollout gains momentum quickly. If this can happen, the economy can recover quickly.”

“The vaccine rollout has not directly affected our hiring plans. Hiring signals will come from increased customer demand.”

“Our internal protocols seem to be working well as we have had very few infections among our employees since June.”

“We have had several people who missed work with the virus which affected productivity within our business. We still have many people who have not contracted the virus and it would be good for us to keep them healthy.”

“Getting new employees is very challenging.”

“Unemployment bonuses make it incredibly hard to hire entry level employees. Our manufacturing output is significantly constrained as a result.”

“We need our supply chain to be able to supply more materials.”

“Steel costs are increasing weekly, sometimes quite a bit, like 5-10% in one week we have seen. Lead times are also pushing out. Confirmed PO’s are coming in six weeks late. The supply chain folks need to get their capacity up and soon.”

“With the negative impact on oil and gas drilling we will not have any capital equipment investments and will not be adding any additional employees and may have to do layoffs if our first PPP loan is not forgiven.”

Table 1. Summary of Tenth District Manufacturing Conditions, January 2021

Plant Level Indicators	January vs. December (percent)*				January vs. Year Ago (percent)*				Expected in Six Months (percent)*					
				Diff Index [^]				Diff Index [^]				Diff Index [^]	SA Index ^{^^}	
	Increase	No Change	Decrease		Increase	No Change	Decrease		Increase	No Change	Decrease			
Composite Index				15	17				0				25	24
Production	42	33	25	17	22	41	14	45	-5	63	19	18	45	46
Volume of shipments	45	32	23	23	28	40	13	47	-8	64	15	21	43	43
Volume of new orders	48	29	24	24	25	41	15	44	-3	57	20	23	34	31
Backlog of orders	42	35	24	18	14	33	32	35	-2	40	32	28	11	12
Number of employees	23	62	15	8	13	25	35	41	-16	43	40	17	26	25
Average employee workweek	22	63	15	7	12	21	54	25	-4	24	61	15	8	5
Prices received for finished product	29	62	10	19	19	49	34	17	32	46	43	10	36	38
Prices paid for raw materials	63	37	0	63	65	77	16	7	71	65	27	8	58	61
Capital expenditures						24	51	25	-2	30	54	16	14	12
New orders for exports	18	75	7	12	10	17	65	17	0	20	69	11	10	10
Supplier delivery time	33	58	9	24	22	47	38	15	32	32	52	15	17	19
Inventories: Materials	27	48	25	3	4	30	32	38	-8	29	45	25	4	1
Inventories: Finished goods	22	52	26	-4	-3	16	39	44	-28	31	38	31	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-13.

Note: The January survey was open for a five-day period from January 20-25, 2021 and included 106 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Indexes

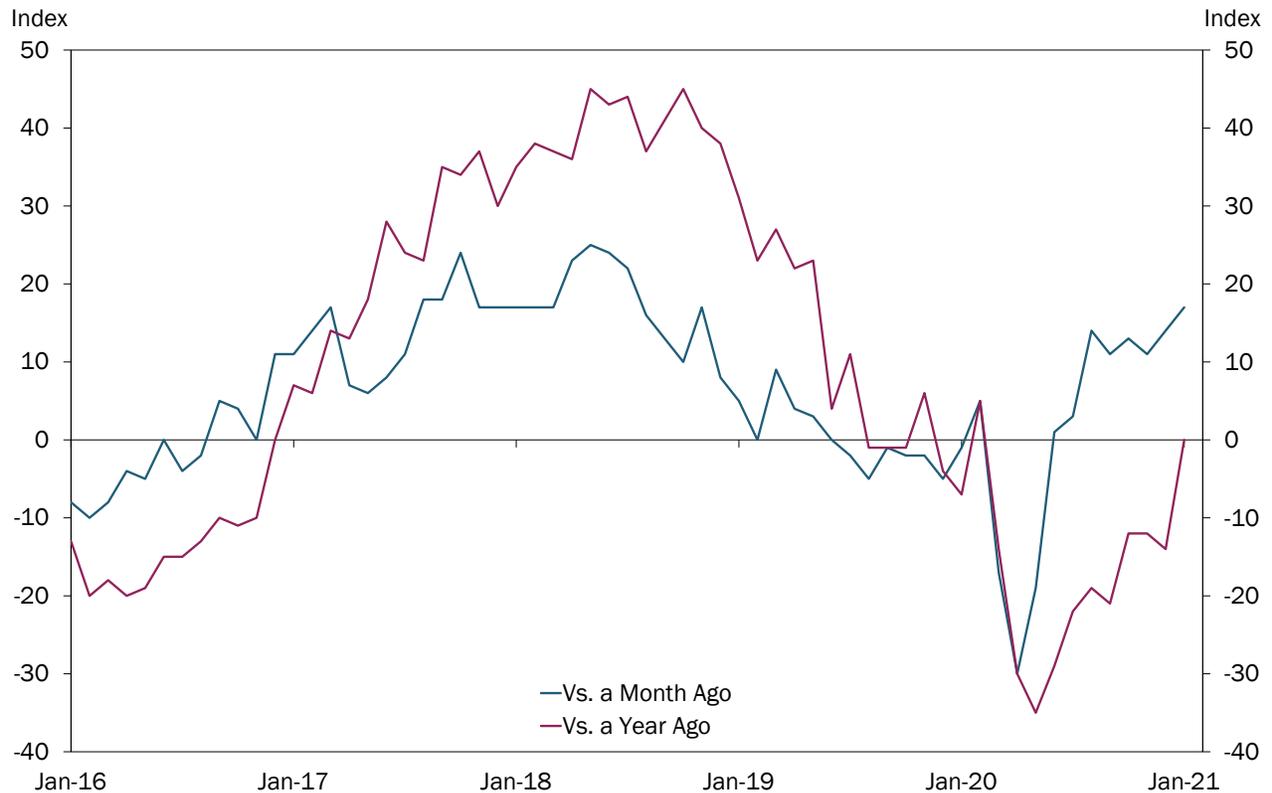


Chart 2. Special Question: How important is widespread COVID-19 vaccination to your firm's overall business outlook for 2021?

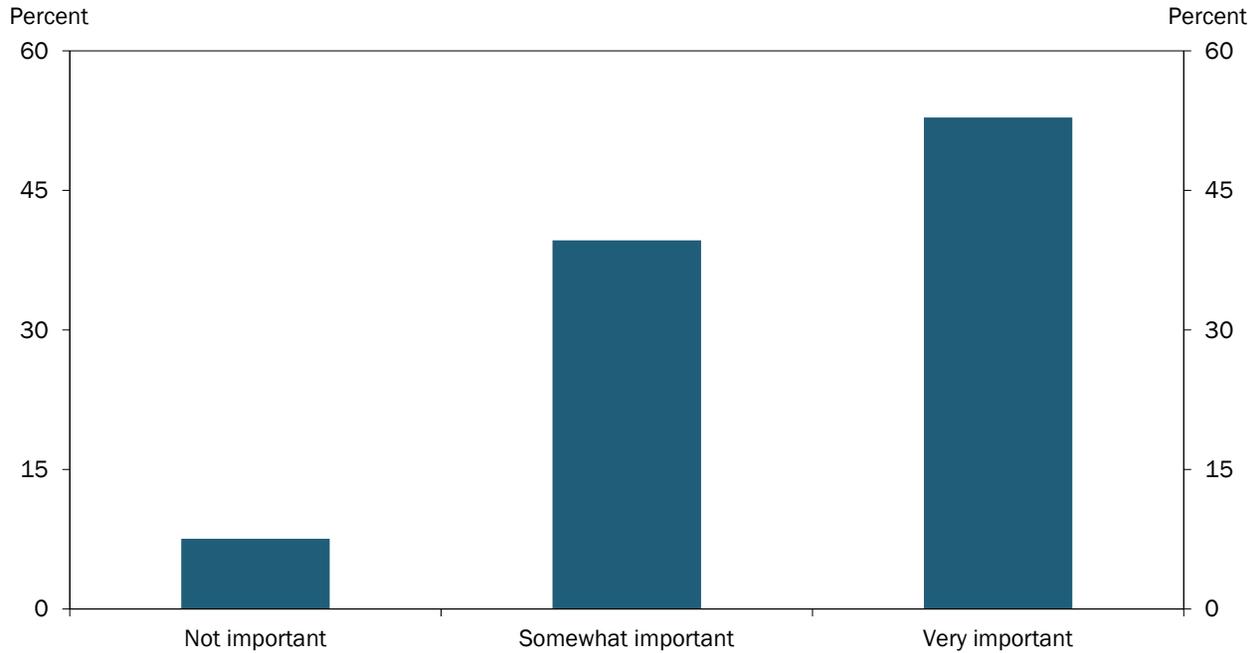


Chart 3. Special Question: How is the COVID-19 vaccine rollout affecting your firm's hiring and capital spending plans for 2021?

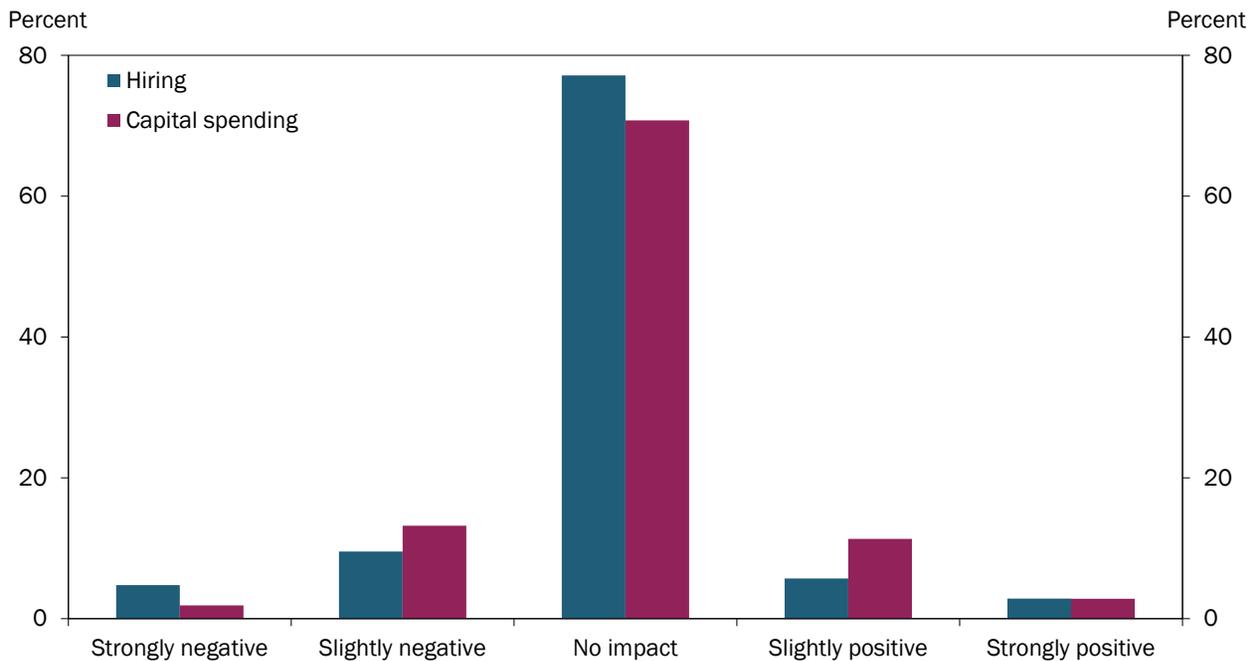


Table 2
Historical Manufacturing Survey Indexes

	Jan'20	Feb'20	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Sep'20	Oct'20	Nov'20	Dec'20	Jan'21
Versus a Month Ago (seasonally adjusted)													
Composite Index	-1	5	-17	-30	-19	1	3	14	11	13	11	14	17
Production	-4	8	-18	-62	-25	2	7	23	18	23	20	12	22
Volume of shipments	-4	9	-23	-57	-22	8	11	19	9	22	3	17	28
Volume of new orders	-2	8	-38	-64	-25	7	9	26	23	26	19	24	25
Backlog of orders	-20	-16	-41	-54	-32	-24	2	3	13	2	4	14	14
Number of employees	4	-4	-32	-34	-13	-6	3	9	7	9	1	7	13
Average employee workweek	-3	-2	-15	-51	-20	0	6	4	-1	7	8	11	12
Prices received for finished product	-3	9	-6	-14	-9	7	6	4	12	4	7	9	19
Prices paid for raw materials	28	14	-13	-16	-6	1	3	17	24	34	32	53	65
Capital expenditures	n/a												
New orders for exports	-4	5	-18	-29	-25	-8	-10	1	-4	1	-10	6	10
Supplier delivery time	3	11	13	26	-8	8	3	8	13	7	15	17	22
Inventories: Materials	-8	2	-12	-14	-24	-4	-8	5	-6	1	-1	9	4
Inventories: Finished goods	-6	7	-16	-16	-11	-5	-14	-8	-3	-6	-5	-14	-3
Versus a Year Ago (not seasonally adjusted)													
Composite Index	-7	5	-14	-30	-35	-29	-22	-19	-21	-12	-12	-14	0
Production	-11	-5	-19	-63	-58	-48	-36	-34	-31	-23	-23	-31	-5
Volume of shipments	-10	4	-25	-61	-60	-47	-39	-28	-29	-24	-24	-30	-8
Volume of new orders	-20	6	-31	-54	-55	-53	-33	-25	-30	-9	-18	-14	-3
Backlog of orders	-24	-16	-33	-49	-46	-47	-27	-26	-23	-15	-18	-5	-2
Number of employees	1	12	-14	-32	-31	-31	-23	-27	-30	-21	-24	-26	-16
Average employee workweek	-12	-6	-21	-50	-43	-37	-20	-22	-23	-9	-14	-11	-4
Prices received for finished product	22	28	13	3	-2	4	6	6	12	18	21	24	32
Prices paid for raw materials	26	31	14	0	4	0	6	6	21	24	46	63	71
Capital expenditures	5	15	-15	-42	-34	-23	-17	-11	-4	3	14	-3	-2
New orders for exports	-9	-3	-8	-27	-28	-27	-26	-8	-16	-9	-13	-13	0
Supplier delivery time	0	11	5	16	-6	7	5	2	9	13	20	20	32
Inventories: Materials	-6	0	-9	-15	-23	-21	-21	-11	-24	-20	-14	-20	-8
Inventories: Finished goods	-3	-1	-19	-15	-22	-13	-23	-23	-20	-16	-13	-29	-28
Expected in Six Months (seasonally adjusted)													
Composite Index	14	16	-19	-6	-2	9	14	19	18	21	20	17	24
Production	23	21	-36	-8	-2	14	25	20	25	31	31	20	46
Volume of shipments	25	24	-37	-8	-1	12	21	19	27	26	29	19	43
Volume of new orders	9	21	-35	-8	7	16	20	21	23	24	24	21	31
Backlog of orders	4	-2	-38	-6	-5	-5	5	3	13	9	6	13	12
Number of employees	20	20	-19	-10	-4	8	11	26	19	22	17	22	25
Average employee workweek	0	8	-20	-3	-3	6	10	4	11	12	6	15	5
Prices received for finished product	20	28	-10	2	-5	13	13	16	34	26	30	25	38
Prices paid for raw materials	35	37	-8	4	17	17	17	31	33	55	50	45	61
Capital expenditures	8	7	-41	-30	-19	-3	-5	4	3	13	11	4	12
New orders for exports	-6	6	-17	-9	-7	-10	-10	-1	6	5	4	8	10
Supplier delivery time	8	15	8	8	-7	8	9	7	13	16	30	14	19
Inventories: Materials	8	5	-11	-9	-3	-1	5	21	11	12	-2	5	1
Inventories: Finished goods	9	1	-28	-14	-3	1	5	1	7	7	0	5	-2