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CONTACT: Pam Campbell

(405) 270-8617

Pam.Campbell@kc.frb.org

Tenth District Manufacturing Activity Grew Solidly
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 grew solidly compared to a month ago and a year ago with positive expectations for future activity.

“Regional factories continued to report solid growth in March,” said Wilkerson. “Materials prices remain extremely high for most firms. However, many manufacturers have been able to pass through at least a portion of the price increases on to customers.”

Historical data, 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 grew solidly compared to a month ago and a year ago with positive expectations for future activity (Chart 1, Tables 1 & 2). Prices paid for raw materials remained very high, and the index continued to hover near historically high levels. Finished goods prices also increased further from a month ago and a year ago. Moving forward, district firms expected prices for both raw materials and finished goods to rise more over the next six months.

Factory Activity Grew Solidly

The month-over-month composite index was 26 in March, higher than 24 in February and 17 in January (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The growth in district manufacturing activity was driven more by durable goods plants for primary metals, machinery, transportation equipment, furniture, and miscellaneous manufacturing. Month-over-month indexes for shipments, new orders, and order backlog expanded at a faster pace in March and supplier delivery time was very high as well. Growth in production and employment remained positive, but slightly slower than in recent months. Materials inventories were positive while finished goods inventories dipped further from a month ago. Year-over-year factory indexes rose in March, and business conditions are now comparable to levels at the start of the pandemic last year. The year-over-year composite index increased from 8 to 16, but new orders for exports and finished goods inventories continued to lag year-ago levels. The future composite index expanded slightly from 34 to 35 with an uptick in employment expectations.

Special Questions

This month contacts were asked special questions about materials price increases and the impact of the vaccination rollout on business conditions. While 8% of firms said they can fully pass price increases through to customers, 49% of firms recorded that they could pass through a majority of price increases (Chart 2). Another 32% of firms reported the ability to pass through only a minority of price increases through to the customer, and 11% percent were unable to pass through price increases at all. Regarding the pandemic, 42% of firms said the current pace of vaccinations and trajectory of the pandemic had not changed their business plans. On the other hand, a quarter of firms said the state of COVID-19 cases and vaccinations caused them to relax COVID cautionary measures in the workplace and increase business travel (Chart 3). 21% of firms also reported an increase in demand for products and 17% were hiring more workers as a result. Another 12% of contacts indicated they are considering bringing employees back to the office sooner than expected due to the drop in COVID-19 cases and vaccination progress and 9% of firms already brought employees back.

Selected Manufacturing Comments

“We continue to see record orders. We had to buy from outside U.S. for the first time in 20 years. Prices of steel are also a problem, but we have been able to pass much of that on.”

“We are seeing significant changes in commodity costs. We have announced a price increase intended to address these cost increases for later this year. This will be our second price increase in 2021. We believe that inflationary pressures are building and will continue to do so as the year progresses.”

“The rising costs of raw materials, namely steels, aluminum, bronze, as well as, corrugated packaging and labor is happening quicker than we can react, forcing us to eat the additional costs.”

“Global logistics and lower manufacturing capacity limitations due to COVID are preventing our business from meeting customer demand and lowering sales/profits.”

“We will not increase on-site staff or business travel until more people get vaccinated. We're expecting to see that by late summer.”

“The pace of vaccinations and the weather issues in Texas have tempered our ability to push forward with growth in our business. Plastics and other petrochemical derived raw materials are experiencing some drastic shortages and significant price increases.”

“Production was hurt in February due to the extreme weather in parts of the country. Trucks were not moving, we could not get materials when they were needed, and could not get finished materials shipped to our customers. It has improved but still remains a problem.”

“We are always looking for production employees. We can't find enough.”

“Having a very difficult time getting applicants (even bad ones) for open positions. The extra Federal unemployment payments are keeping people home and out of the work force.”

“The individual stimulus payments are the equivalent of nearly 80 hours of work for a majority of our hourly positions so we have an increased number of call-ins and no shows. The extension of unemployment benefits has made it difficult to hire unemployed individuals.”

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

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				31	26				16				37	35
Production	47	35	17	30	23	46	11	42	4	63	20	17	45	45
Volume of shipments	49	33	17	32	27	43	12	44	-1	62	20	17	45	42
Volume of new orders	63	23	14	48	37	53	16	31	21	59	23	18	40	37
Backlog of orders	52	33	15	36	32	44	26	29	15	49	31	19	30	27
Number of employees	28	64	8	20	17	34	31	34	0	52	41	7	44	41
Average employee workweek	33	58	9	24	21	35	43	21	14	40	47	12	28	27
Prices received for finished product	37	59	4	33	31	59	31	10	48	55	39	6	49	48
Prices paid for raw materials	72	27	1	71	66	91	6	3	88	81	13	6	75	72
Capital expenditures						30	44	25	5	42	38	19	23	23
New orders for exports	13	76	11	2	1	13	69	18	-5	17	71	12	5	5
Supplier delivery time	48	41	10	38	41	59	22	19	39	44	39	16	28	27
Inventories: Materials	34	49	17	16	11	40	35	26	14	40	45	15	24	25
Inventories: Finished goods	20	57	23	-3	-10	21	41	39	-18	31	47	22	9	9

*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 March survey was open for a five-day period from March 18-23, 2021 and included 99 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Indexes

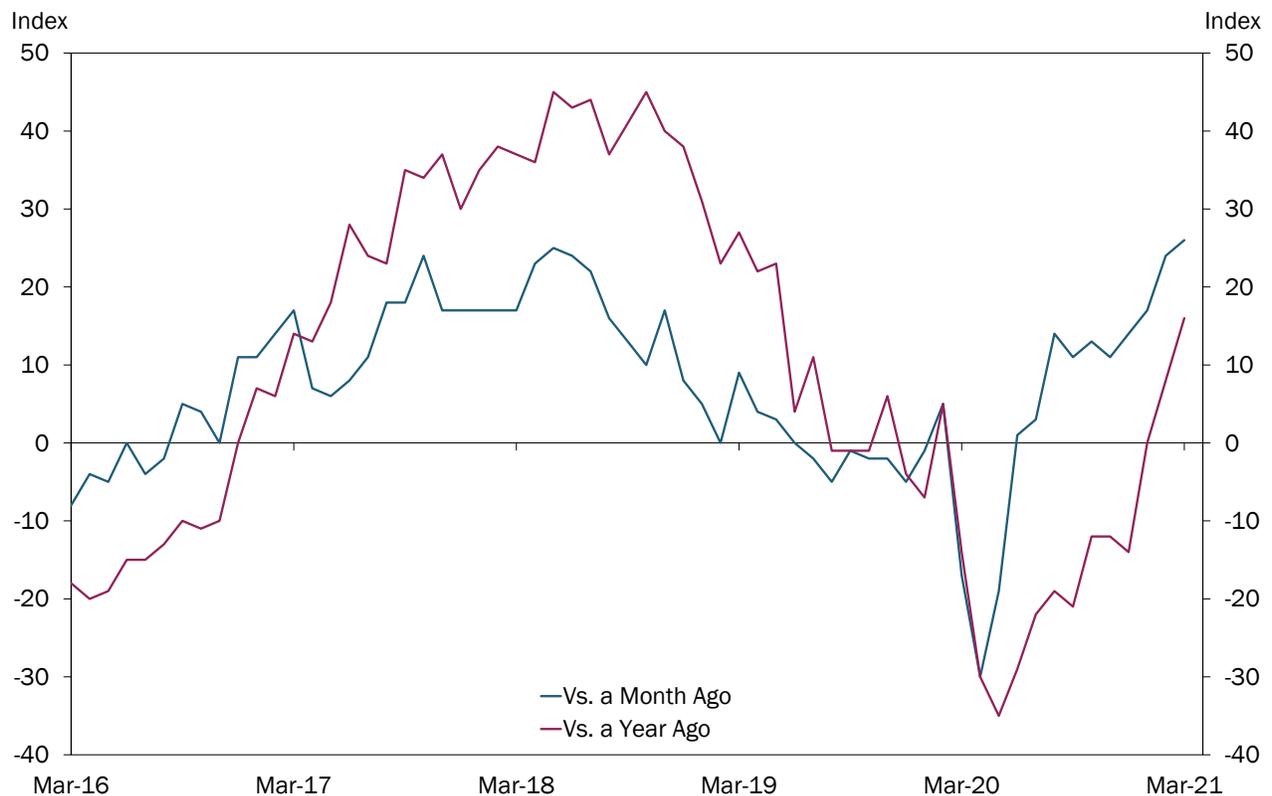


Chart 2. Special Question: If your firm is experiencing price pressures, are you able to pass these increases through to the customer?

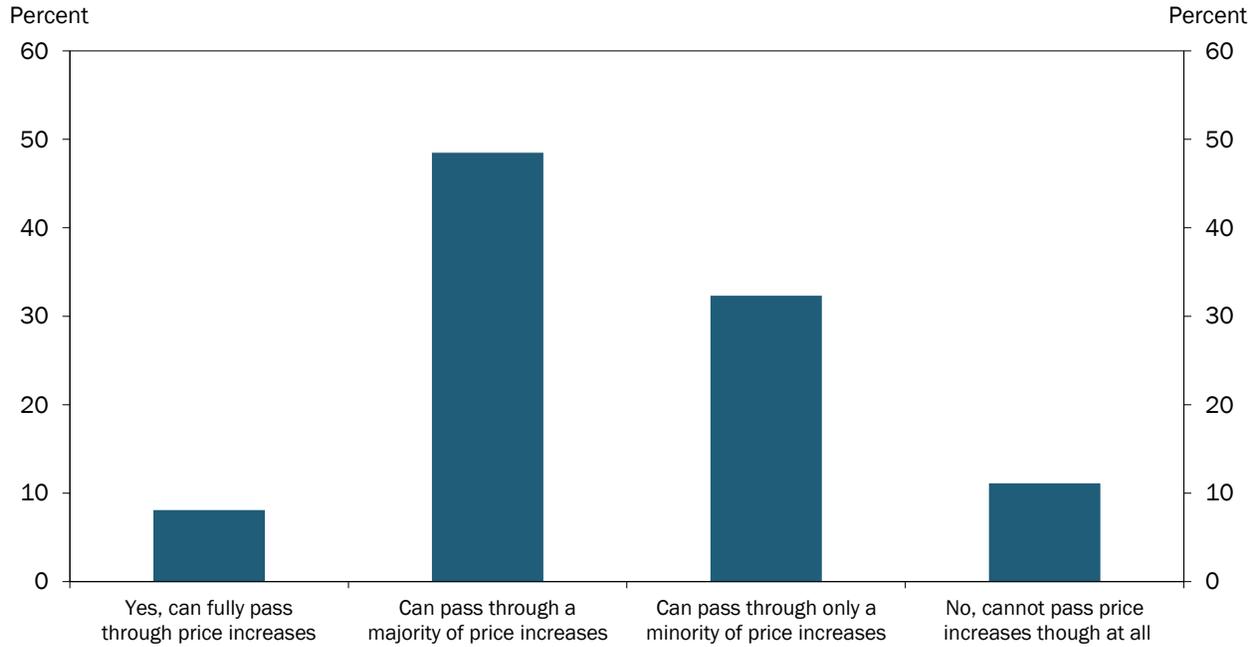


Chart 3. Special Question: How is the pace of vaccinations and trajectory of the pandemic affecting your business? (check all that apply)

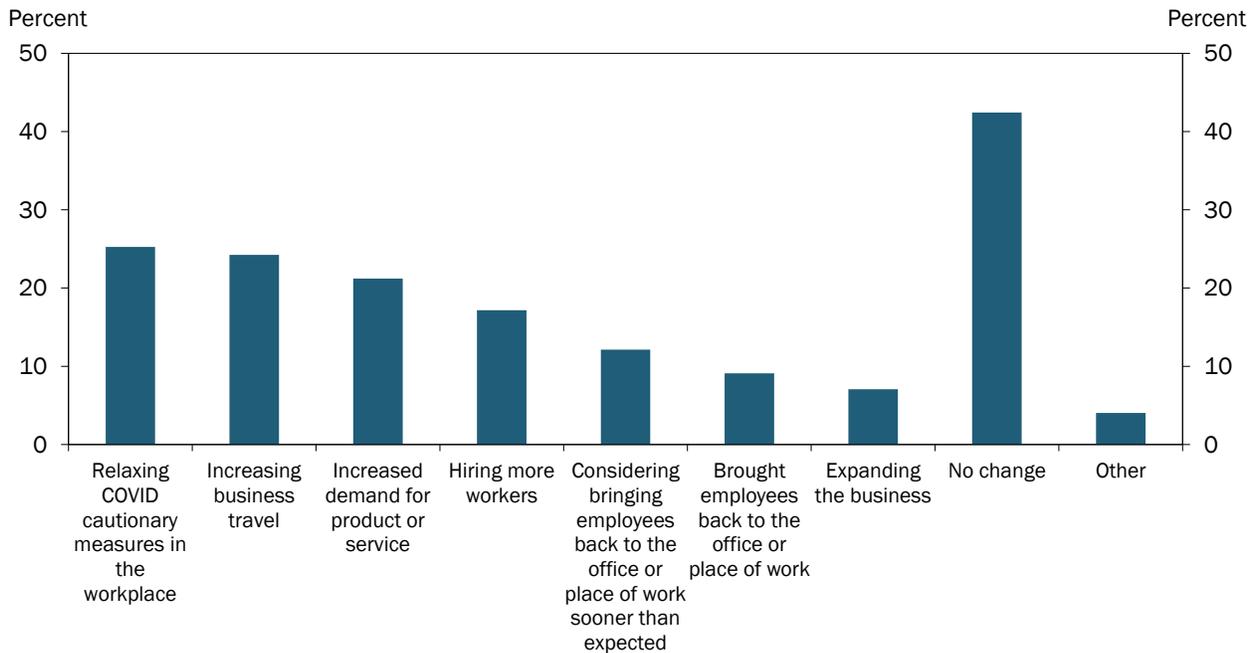


Table 2
Historical Manufacturing Survey Indexes

	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Sep'20	Oct'20	Nov'20	Dec'20	Jan'21	Feb'21	Mar'21
Versus a Month Ago (seasonally adjusted)													
Composite Index	-17	-30	-19	1	3	14	11	13	11	14	17	24	26
Production	-18	-62	-25	2	7	23	18	23	20	12	22	26	23
Volume of shipments	-23	-57	-22	8	11	19	9	22	3	17	28	14	27
Volume of new orders	-38	-64	-25	7	9	26	23	26	19	24	25	16	37
Backlog of orders	-41	-54	-32	-24	2	3	13	2	4	14	14	27	32
Number of employees	-32	-34	-13	-6	3	9	7	9	1	7	13	21	17
Average employee workweek	-15	-51	-20	0	6	4	-1	7	8	11	12	13	21
Prices received for finished product	-6	-14	-9	7	6	4	12	4	7	9	19	27	31
Prices paid for raw materials	-13	-16	-6	1	3	17	24	34	32	53	65	68	66
Capital expenditures	n/a												
New orders for exports	-18	-29	-25	-8	-10	1	-4	1	-10	6	10	9	1
Supplier delivery time	13	26	-8	8	3	8	13	7	15	17	22	40	41
Inventories: Materials	-12	-14	-24	-4	-8	5	-6	1	-1	9	4	16	11
Inventories: Finished goods	-16	-16	-11	-5	-14	-8	-3	-6	-5	-14	-3	-5	-10
Versus a Year Ago (not seasonally adjusted)													
Composite Index	-14	-30	-35	-29	-22	-19	-21	-12	-12	-14	0	8	16
Production	-19	-63	-58	-48	-36	-34	-31	-23	-23	-31	-5	4	4
Volume of shipments	-25	-61	-60	-47	-39	-28	-29	-24	-24	-30	-8	7	-1
Volume of new orders	-31	-54	-55	-53	-33	-25	-30	-9	-18	-14	-3	16	21
Backlog of orders	-33	-49	-46	-47	-27	-26	-23	-15	-18	-5	-2	8	15
Number of employees	-14	-32	-31	-31	-23	-27	-30	-21	-24	-26	-16	-15	0
Average employee workweek	-21	-50	-43	-37	-20	-22	-23	-9	-14	-11	-4	-1	14
Prices received for finished product	13	3	-2	4	6	6	12	18	21	24	32	40	48
Prices paid for raw materials	14	0	4	0	6	6	21	24	46	63	71	82	88
Capital expenditures	-15	-42	-34	-23	-17	-11	-4	3	14	-3	-2	19	5
New orders for exports	-8	-27	-28	-27	-26	-8	-16	-9	-13	-13	0	-1	-5
Supplier delivery time	5	16	-6	7	5	2	9	13	20	20	32	42	39
Inventories: Materials	-9	-15	-23	-21	-21	-11	-24	-20	-14	-20	-8	-6	14
Inventories: Finished goods	-19	-15	-22	-13	-23	-23	-20	-16	-13	-29	-28	-30	-18
Expected in Six Months (seasonally adjusted)													
Composite Index	-19	-6	-2	9	14	19	18	21	20	17	24	34	35
Production	-36	-8	-2	14	25	20	25	31	31	20	46	44	45
Volume of shipments	-37	-8	-1	12	21	19	27	26	29	19	43	44	42
Volume of new orders	-35	-8	7	16	20	21	23	24	24	21	31	50	37
Backlog of orders	-38	-6	-5	-5	5	3	13	9	6	13	12	19	27
Number of employees	-19	-10	-4	8	11	26	19	22	17	22	25	28	41
Average employee workweek	-20	-3	-3	6	10	4	11	12	6	15	5	12	27
Prices received for finished product	-10	2	-5	13	13	16	34	26	30	25	38	40	48
Prices paid for raw materials	-8	4	17	17	17	31	33	55	50	45	61	68	72
Capital expenditures	-41	-30	-19	-3	-5	4	3	13	11	4	12	25	23
New orders for exports	-17	-9	-7	-10	-10	-1	6	5	4	8	10	13	5
Supplier delivery time	8	8	-7	8	9	7	13	16	30	14	19	35	27
Inventories: Materials	-11	-9	-3	-1	5	21	11	12	-2	5	1	11	25
Inventories: Finished goods	-28	-14	-3	1	5	1	7	7	0	5	-2	1	9