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Tenth District Manufacturing Activity Expanded Further
Federal Reserve Bank of Kansas City Releases April Manufacturing Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the April 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 expanded further with the highest monthly composite reading in survey history, and expectations for future activity increased considerably.

“Regional factories reported historic growth and very positive expectations in April,” said Wilkerson. “Compared to pre-pandemic levels, new orders and employment have risen for some contacts, but varied by industry. Looking forward, firms remained concerned about the lack of qualified workers, supply chain constraints, and high materials prices.”

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 expanded further with the highest monthly composite reading in survey history, and expectations for future activity increased considerably (Chart 1, Tables 1 & 2). The index of prices paid for raw materials compared to a month ago also reached the highest level in survey history. In addition, finished goods prices expanded more from a month ago and a year ago. Materials price expectations for district firms over the next six months continued to rise, and many firms also expect higher finished goods prices.

Factory Activity Expanded Further

The month-over-month composite index was 31 in April, an increase from 26 in March and 24 in February. (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 continued to be driven by higher activity levels at durable goods plants, especially for primary and fabricated metals, and transportation equipment manufacturing. Month-over-month indexes for production and employment reached record high levels in April. Shipments, employee workweek, order backlog, and new orders for exports expanded at a faster pace in April. New orders and supplier delivery time indexes remained very positive. Materials inventories rose significantly and finished goods inventories jumped back into positive territory for the first time since February 2020. Year-over-year factory indexes increased considerably in April, now comparable to the depths of the pandemic shutdown last year. The year-over-year composite index surged from 16 to 35, with all positive indexes indicating growth from this time last year. The future composite index was very high at 34, similar to previous months but with an uptick in expectations for new orders and employment.

Special Questions

This month contacts were asked special questions about how business indicators compare to pre-pandemic levels and about the greatest risks to their firm for the coming year. Around 70% of firms indicated selling prices are higher compared to pre-pandemic levels, mostly due to increasing materials prices (Chart 2). Half of firms reported higher new orders compared to before the pandemic while 36% reported fewer new orders. The distribution of firms reporting higher or lower employment levels was relatively even and varied by industry. For the biggest risks affecting business plans over the next year, 60% of firms indicated the lack of qualified workers and supply chain issues are two of the biggest risks (Chart 3). Additionally, 28% of firms recorded the inability to pass through price increases as a primary risk, and 23% of firms noted the low demand for products/services as a risk to business plans over the next year.

Selected Manufacturing Comments

“It is very difficult to handle the increased business with supply chain issues across all materials and finding anyone who wants to work. The federal government has incentivized people to stay home and not be productive.”

“Stimulus and increased unemployment money are wrecking the labor pool. Lower level employees are quitting to make just as much not working.”

“Unemployed workers have no incentive to return to work given the COVID bonus payments.”

“Entry level pay will need to be increased. This will create pressure on all other positions.”

“We believe the shortage of workers is not an impact from the 2nd stimulus as much as a systematic problem of the gig economy and simply not enough workers for unskilled and critical skill positions. We are focused on retention.”

“We are facing significant supply chain problems due to COVID-19 issues, tariff issues, and the weather problems in Texas earlier this year.”

“Steel market needs to become stable. Steel producers recording record profits, while downstream suffers margin erosion.”

“Largest raw material provider is refusing to deliver previously accepted purchased orders at accepted prices - demanding 18% price increase to fill previously accepted orders of flat rolled USA stainless steel.”

“We could greatly grow our business if it were not for steel and labor issues. We could get more orders and employ more people. Supply chains are a mess and we cannot get people to apply. We pay upwards of \$20 or more per hour with full benefits.”

“Liquidity is the BIGGEST issue. Ramp up of production is stressing cash more than usual since we depleted cash during the downturn more than what would have been typical.”

“The labor shortage is driving up the price of most proteins in food manufacturing.”

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

Plant Level Indicators	April vs. March (percent)*				April 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				35	31				35				34	34
Production	58	34	8	49	40	67	13	20	46	59	24	16	43	45
Volume of shipments	53	35	12	41	32	65	13	22	42	61	25	14	46	49
Volume of new orders	53	34	13	39	29	66	15	19	47	56	31	13	43	40
Backlog of orders	54	33	13	40	35	57	22	21	36	45	36	19	27	25
Number of employees	43	42	14	29	29	48	28	24	24	57	35	8	48	49
Average employee workweek	36	55	9	27	27	50	36	14	36	37	53	10	27	30
Prices received for finished product	46	51	3	43	41	74	16	10	64	54	38	8	45	43
Prices paid for raw materials	78	22	0	78	73	93	6	1	92	84	12	4	80	79
Capital expenditures						33	51	16	17	42	46	12	30	30
New orders for exports	15	77	7	8	9	21	68	11	9	19	72	9	9	10
Supplier delivery time	53	27	20	32	35	57	13	30	28	39	38	23	16	13
Inventories: Materials	41	43	16	24	24	54	21	25	29	40	38	22	17	21
Inventories: Finished goods	28	52	21	7	8	34	40	27	7	30	49	21	9	12

*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 April survey was open for a five-day period from April 14-19, 2021 and included 100 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 do business indicators compare to pre-pandemic levels for your firm?

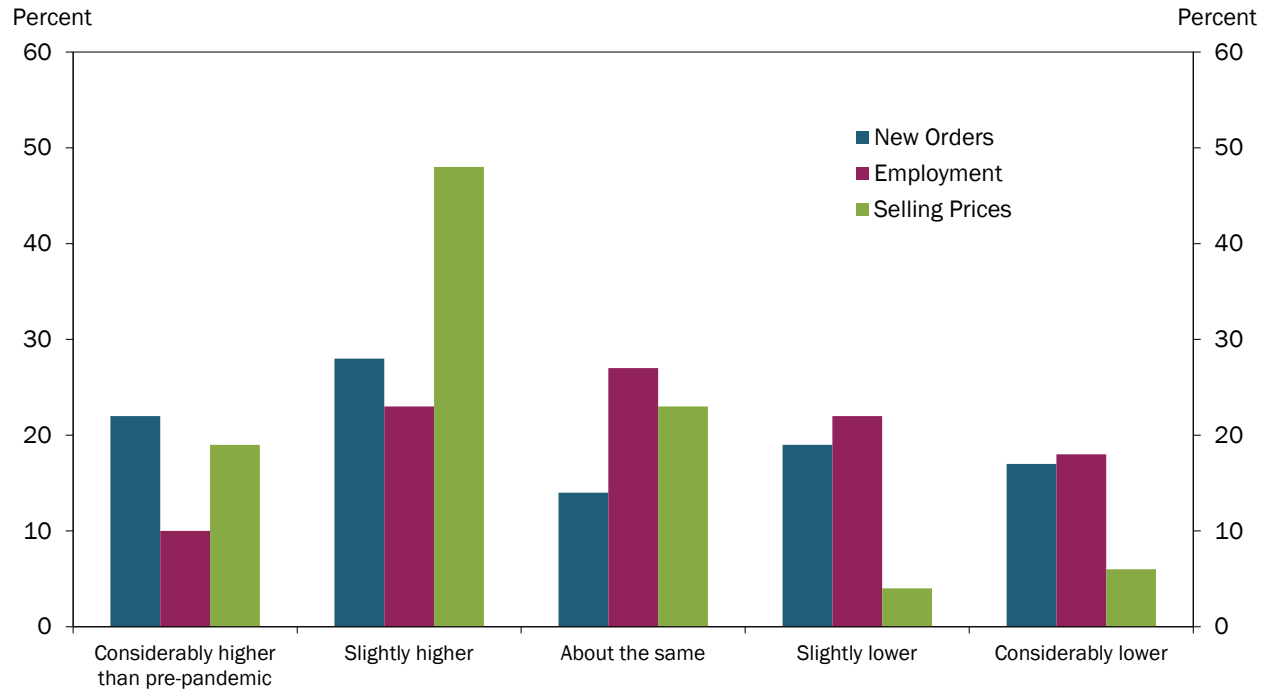


Chart 3. Special Question: What are your firm's biggest risks affecting future business plans over the next year? (rank top two)

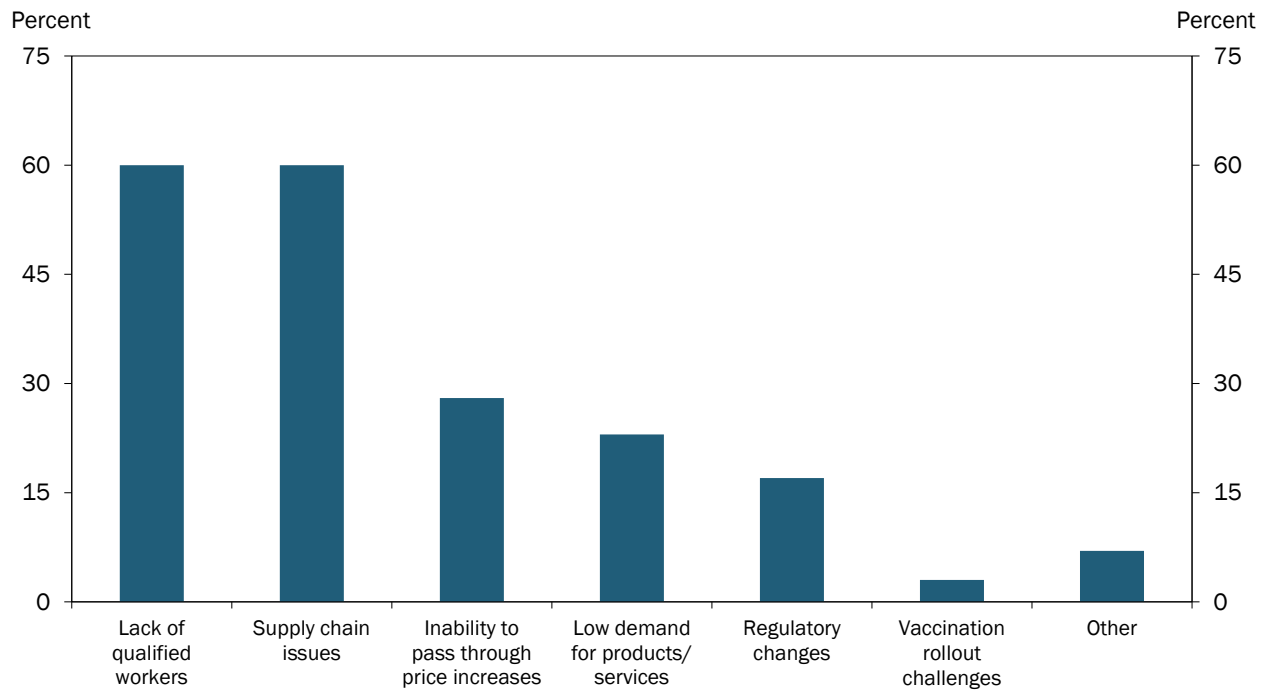


Table 2
Historical Manufacturing Survey Indexes

	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Sep'20	Oct'20	Nov'20	Dec'20	Jan'21	Feb'21	Mar'21	Apr'21
Versus a Month Ago (seasonally adjusted)													
Composite Index	-30	-19	1	3	14	11	13	11	14	17	24	26	31
Production	-62	-25	2	7	23	18	23	20	12	22	26	23	40
Volume of shipments	-57	-22	8	11	19	9	22	3	17	28	14	27	32
Volume of new orders	-64	-25	7	9	26	23	26	19	24	25	16	37	29
Backlog of orders	-54	-32	-24	2	3	13	2	4	14	14	27	32	35
Number of employees	-34	-13	-6	3	9	7	9	1	7	13	21	17	29
Average employee workweek	-51	-20	0	6	4	-1	7	8	11	12	13	21	27
Prices received for finished product	-14	-9	7	6	4	12	4	7	9	19	27	31	41
Prices paid for raw materials	-16	-6	1	3	17	24	34	32	53	65	68	66	73
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	-29	-25	-8	-10	1	-4	1	-10	6	10	9	1	9
Supplier delivery time	26	-8	8	3	8	13	7	15	17	22	40	41	35
Inventories: Materials	-14	-24	-4	-8	5	-6	1	-1	9	4	16	11	24
Inventories: Finished goods	-16	-11	-5	-14	-8	-3	-6	-5	-14	-3	-5	-10	8
Versus a Year Ago (not seasonally adjusted)													
Composite Index	-30	-35	-29	-22	-19	-21	-12	-12	-14	0	8	16	35
Production	-63	-58	-48	-36	-34	-31	-23	-23	-31	-5	4	4	46
Volume of shipments	-61	-60	-47	-39	-28	-29	-24	-24	-30	-8	7	-1	42
Volume of new orders	-54	-55	-53	-33	-25	-30	-9	-18	-14	-3	16	21	47
Backlog of orders	-49	-46	-47	-27	-26	-23	-15	-18	-5	-2	8	15	36
Number of employees	-32	-31	-31	-23	-27	-30	-21	-24	-26	-16	-15	0	24
Average employee workweek	-50	-43	-37	-20	-22	-23	-9	-14	-11	-4	-1	14	36
Prices received for finished product	3	-2	4	6	6	12	18	21	24	32	40	48	64
Prices paid for raw materials	0	4	0	6	6	21	24	46	63	71	82	88	92
Capital expenditures	-42	-34	-23	-17	-11	-4	3	14	-3	-2	19	5	17
New orders for exports	-27	-28	-27	-26	-8	-16	-9	-13	-13	0	-1	-5	9
Supplier delivery time	16	-6	7	5	2	9	13	20	20	32	42	39	28
Inventories: Materials	-15	-23	-21	-21	-11	-24	-20	-14	-20	-8	-6	14	29
Inventories: Finished goods	-15	-22	-13	-23	-23	-20	-16	-13	-29	-28	-30	-18	7
Expected in Six Months (seasonally adjusted)													
Composite Index	-6	-2	9	14	19	18	21	20	17	24	34	35	34
Production	-8	-2	14	25	20	25	31	31	20	46	44	45	45
Volume of shipments	-8	-1	12	21	19	27	26	29	19	43	44	42	49
Volume of new orders	-8	7	16	20	21	23	24	24	21	31	50	37	40
Backlog of orders	-6	-5	-5	5	3	13	9	6	13	12	19	27	25
Number of employees	-10	-4	8	11	26	19	22	17	22	25	28	41	49
Average employee workweek	-3	-3	6	10	4	11	12	6	15	5	12	27	30
Prices received for finished product	2	-5	13	13	16	34	26	30	25	38	40	48	43
Prices paid for raw materials	4	17	17	17	31	33	55	50	45	61	68	72	79
Capital expenditures	-30	-19	-3	-5	4	3	13	11	4	12	25	23	30
New orders for exports	-9	-7	-10	-10	-1	6	5	4	8	10	13	5	10
Supplier delivery time	8	-7	8	9	7	13	16	30	14	19	35	27	13
Inventories: Materials	-9	-3	-1	5	21	11	12	-2	5	1	11	25	21
Inventories: Finished goods	-14	-3	1	5	1	7	7	0	5	-2	1	9	12