



NEWS RELEASE

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Tenth District Manufacturing Activity Growth Edged Higher
Federal Reserve Bank of Kansas City Releases December Manufacturing Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the December 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 growth edged higher, but expectations for future activity moderated slightly.

“Regional factory activity continued to grow modestly in December,” said Wilkerson. “Materials price increases slowed slightly from a month ago, and most firms expected to raise wages in 2022.”

Historical data, results from past surveys and release dates for future surveys can be found at <https://kansascityfed.org/surveys/manufacturing-survey/>.

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 growth edged higher, but expectations for future activity moderated slightly (Chart 1, Tables 1 & 2). The monthly index of raw materials prices continued to ease slightly from a month ago, although most firms continued to report higher input prices compared to a year ago. Finished goods price indexes declined from a month ago but were also above year ago levels for most firms. Expectations for future raw materials prices rose, and a significant share of district manufacturing firms still expected finished goods prices to increase over the next six months.

Factory Growth Edged Higher

The month-over-month composite index was 24 in December, the same as 24 in November, but down slightly from 31 in October (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Factory growth was driven by increased activity at nondurable goods plants, especially for paper, chemicals, plastics, and transportation equipment manufacturing. Month-over-month indexes were positive in December, indicating expansion. The pace of growth increased for shipments, new orders, and inventories. On the other hand, supplier delivery time eased slightly. Year-over-year factory indexes continued to expand at a steady rate, and the year-over-year composite index was 50 for the third month in a row. Inventories rose compared to a year ago, along with production, and capital expenditures. The future composite index was 25 in December, down from 35 in November. Expectations remained positive across a number of indicators, but the pace of expected growth eased slightly from November to December.

Special Questions

This month contacts were asked special questions about risks for 2022 along with wage expectations and other labor costs. A significant share of firms reported lack of available labor, ongoing supply chain disruptions or shortages, and rising materials costs as key risks facing their business in 2022 (Chart 2). Additionally, a number of firms indicated that a resurgence of the virus would either slightly or significantly negatively impact their business. For 2022, nearly 70% of firms are planning to increase wages between 2% to 6%, and no firms expected wages to decrease (Chart 3). Additionally, over 85% of firms expected a more than 2% increase in other labor costs such as benefits, training, and time off.

Selected Manufacturing Comments

“We are a wholesale manufacturer of ready to eat foods. Segments of our business pivoted well to carry out and drive through service. Our dine in customers would be hurt badly by a [virus] resurgence.”

“Have seen a recent resurgence of COVID in our operation. It really hurts our productivity.”

“301 tariffs remain a risk in 2022... adding cost to the consumer with each purchase made.”

“We draw employees from 60 miles or more. When fuel prices go up, we start losing employees due to the fuel cost on the family budget. We were able to keep our health insurance premium increases to a minimum this year. However, we believe we will see a spike in medical costs coming up.

“We do not expect business to get significantly better in 2022. There are too many issues that cannot be solved in the immediate future.”

“We have some great opportunities in 2022 but we just need to make it to 2022. We have lost so much capital over the past 18-24 months that we just don't have the bandwidth for much more negative to happen.”

“Our supply chain is having major issues - steel and component prices are up significantly and shortages and delays are causing unpredictability in our production. It is difficult to get ahead of these issues from a pricing and delivery standpoint.”

“We are seeing processing materials and equipment prices raising 15 to 50%.”

“We are frankly not making much headway in growth or expansion due to price and delivery management.”

“Labor expenses will be a significant factor for the foreseeable future.”

“Applicants are trickling in. Not fast enough to satisfy current demand.”

“It is very difficult to hire people in spite of raising wages dramatically. We are also paying hiring bonuses and stay bonuses in addition to raising the base wages.”

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

Plant Level Indicators	December vs. November (percent)*					December vs. Year Ago (percent)*					Expected in Six Months (percent)*				
				Diff	SA				Diff					Diff	SA
	Increase	No Change	Decrease	Index [^]	Index ^{^^}	Increase	No Change	Decrease	Index [^]		Increase	No Change	Decrease	Index [^]	Index ^{^^}
Composite Index				18	24				50					30	25
Production	25	52	23	2	10	64	25	11	54	54	30	16	39	33	
Volume of shipments	27	49	24	2	20	63	23	14	49	53	33	15	38	31	
Volume of new orders	34	43	23	11	27	65	29	5	60	45	34	21	24	18	
Backlog of orders	27	48	24	3	13	60	28	12	48	36	43	21	16	11	
Number of employees	26	64	9	17	18	54	31	16	38	50	43	7	43	33	
Average employee workweek	19	67	14	5	8	41	49	9	32	32	55	13	20	16	
Prices received for finished product	49	44	7	41	43	91	7	2	88	65	25	10	54	49	
Prices paid for raw materials	76	20	4	72	73	98	2	0	98	79	13	8	71	68	
Capital expenditures						52	38	10	43	43	42	15	28	21	
New orders for exports	7	87	7	0	3	21	73	7	14	12	80	8	4	1	
Supplier delivery time	51	43	6	44	44	79	9	13	66	52	30	18	34	32	
Inventories: Materials	38	40	23	15	23	56	23	22	34	38	36	26	13	9	
Inventories: Finished goods	21	60	19	2	7	36	40	24	12	26	53	21	5	1	

*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 December survey was open for a five-day period from December 8-13, 2021 and included 96 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Indexes



**Chart 2. Special Question: What are the top 3 risks facing your business in 2022?
(please rank from 1 to 3)**

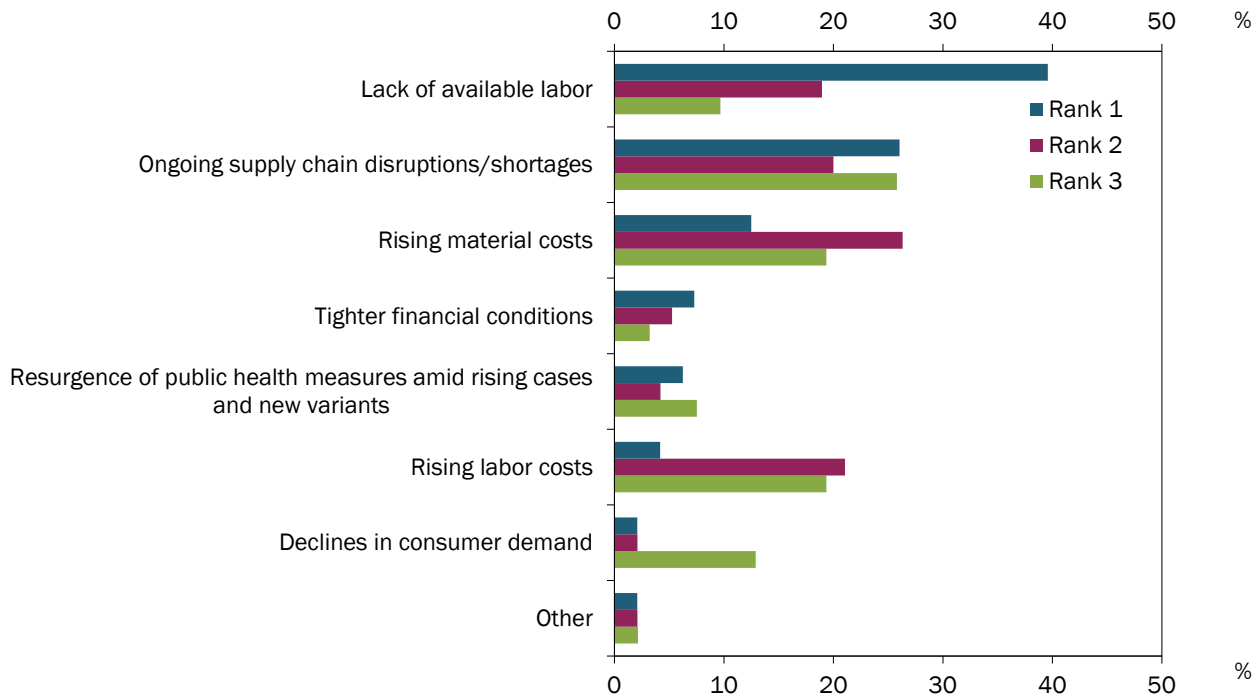


Chart 3. Special Question: What percentage wage gains does your firm expect for 2022? Besides wages, how much do you expect other labor costs (e.g., benefits, training, time off) to change for 2022?

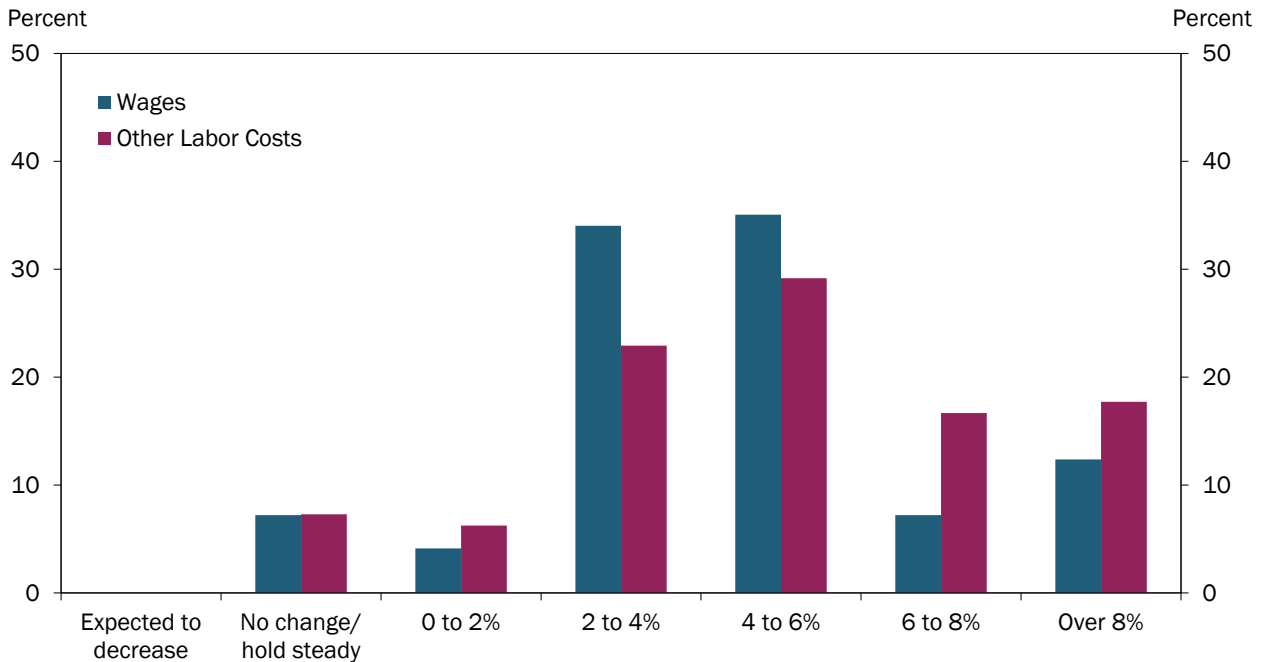


Table 2
Historical Manufacturing Survey Indexes

	Dec'20	Jan'21	Feb'21	Mar'21	Apr'21	May'21	Jun'21	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21
Versus a Month Ago (seasonally adjusted)													
Composite Index	14	17	24	26	31	26	27	30	29	22	31	24	24
Production	12	22	26	23	40	32	30	41	22	10	25	17	10
Volume of shipments	17	28	14	27	32	29	20	37	25	6	28	2	20
Volume of new orders	24	25	16	37	29	35	22	26	34	7	27	-4	27
Backlog of orders	14	14	27	32	35	25	29	53	30	30	23	10	13
Number of employees	7	13	21	17	29	20	26	27	28	21	34	27	18
Average employee workweek	11	12	13	21	27	20	21	31	15	9	15	10	8
Prices received for finished product	9	19	27	31	41	51	48	52	61	40	47	50	43
Prices paid for raw materials	53	65	68	66	73	86	79	78	80	80	87	77	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	6	10	9	1	9	5	6	16	7	3	5	7	3
Supplier delivery time	17	22	40	41	35	23	38	39	41	43	50	57	44
Inventories: Materials	9	4	16	11	24	22	21	15	18	29	20	21	23
Inventories: Finished goods	-14	-3	-5	-10	8	6	3	2	1	3	6	-2	7
Versus a Year Ago (not seasonally adjusted)													
Composite Index	-14	0	8	16	35	43	43	50	50	48	50	50	50
Production	-31	-5	4	4	46	61	55	64	64	67	55	49	54
Volume of shipments	-30	-8	7	-1	42	59	49	64	55	55	55	46	49
Volume of new orders	-14	-3	16	21	47	61	47	66	57	57	64	57	60
Backlog of orders	-5	-2	8	15	36	44	52	62	63	59	60	56	48
Number of employees	-26	-16	-15	0	24	36	30	35	35	24	41	42	38
Average employee workweek	-11	-4	-1	14	36	43	49	54	44	43	39	41	32
Prices received for finished product	24	32	40	48	64	73	77	80	79	83	89	87	88
Prices paid for raw materials	63	71	82	88	92	97	98	100	96	100	99	98	98
Capital expenditures	-3	-2	19	5	17	20	31	35	26	34	28	29	43
New orders for exports	-13	0	-1	-5	9	21	21	19	17	16	20	17	14
Supplier delivery time	20	32	42	39	28	36	51	42	48	56	63	70	66
Inventories: Materials	-20	-8	-6	14	29	20	34	44	44	36	28	29	34
Inventories: Finished goods	-29	-28	-30	-18	7	6	13	16	14	14	6	0	12
Expected in Six Months (seasonally adjusted)													
Composite Index	17	24	34	35	34	33	37	33	36	35	34	35	25
Production	20	46	44	45	45	50	44	48	46	58	41	43	33
Volume of shipments	19	43	44	42	49	59	50	45	42	55	35	40	31
Volume of new orders	21	31	50	37	40	42	45	40	31	33	36	38	18
Backlog of orders	13	12	19	27	25	27	23	26	15	22	19	10	11
Number of employees	22	25	28	41	49	46	45	48	47	43	40	41	33
Average employee workweek	15	5	12	27	30	30	32	20	15	24	20	13	16
Prices received for finished product	25	38	40	48	43	60	56	64	55	58	63	55	49
Prices paid for raw materials	45	61	68	72	79	76	68	71	75	79	85	65	68
Capital expenditures	4	12	25	23	30	22	36	31	32	37	38	24	21
New orders for exports	8	10	13	5	10	17	16	19	7	8	12	10	1
Supplier delivery time	14	19	35	27	13	10	23	16	30	27	47	44	32
Inventories: Materials	5	1	11	25	21	19	27	13	27	13	7	7	9
Inventories: Finished goods	5	-2	1	9	12	1	13	-1	-4	14	10	3	1