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Tenth District Manufacturing Activity Was Flat in December
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, senior vice president at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District manufacturing activity was flat in December, and expectations for future activity picked up.

“Regional factory activity stayed steady in December, and expectations for future activity rebounded,” said Wilkerson. “Accordingly, firms increased their number of employees this month, with further increases expected.”

A summary of the survey is attached. 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 was flat in December, and expectations for future activity picked up. Price increases for both raw materials and finished products picked up slightly this month with further increases expected. However, price growth eased year-over-year. Increases in raw materials prices continue to outpace finished product prices increases. (Chart 1, Tables 1 & 2)

Factory Activity Was Flat

The month-over-month composite index was -1 in December, up slightly from -2 in November and -8 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. Activity for nondurable goods rose—particularly for food & beverage and plastics manufacturing—while activity declined slightly for durable goods, driven by primary metal and furniture manufacturing. The production, shipments, and new orders indexes were all slightly negative, while employment activity rebounded. Additionally, inventories for raw materials and finished goods rose slightly after a stagnant few months. The year-over-year index for factory activity ticked up to -8 from -9. Production, new orders, backlogs, supplier delivery time, and the average employee workweek remained negative but rose slightly from last month's readings. Capital expenditures continued to expand moderately. The future composite index increased to 6 from -1 in December, as sentiment for production and new orders is higher than earlier this year and employment is anticipated to rise.

Special Questions

This month contacts were asked special questions about expectations for demand and capital expenditures in 2024. 42% of firms expect demand for their products to be slightly higher in 2024 and 6% expect it to be significantly higher, while 22% of firms expect no change, 23% expect slightly lower demand, and 7% expect significantly lower demand (Chart 2). 32% of firms expect capital expenditures to be unchanged in 2024, while 28% expect them to be slightly higher and 10% significantly higher. Only 18% of firms expect to capital expenditures to be slightly lower and another 12% expect significantly lower expenditures (Chart 3).

Selected Manufacturing Comments

“We are hoping supply chain issues improve and upward pressure on raw material prices eases. Our margins have taken some hits in order to maintain business.”

“2023 revenue is up by the amount of price increases taken in May. Volume in pounds shipped is down indicating customers are buying less. Price increase fatigue has hit our customers, and we are receiving significant resistance. This has squeezed gross margins. Restaurant traffic is down, grocery traffic is down. Difficult time to operate a food manufacturing business.”

“Backlogs for 2024 are good. The fourth quarter of 2023 will be impacted by a reduction in discretionary spending for interiors and avionics. Part of this could be caused by high demand of travel and reluctance of companies to put their aircraft down during this timeframe.”

“Fortunately, business is good and based on contractual agreements and customer sentiment business will remain strong in 2024. Still very concerned about inflation. Raw ingredients have basically leveled, but we are not bullish on where they move medium to long-term. Labor is much better, but still relatively expensive. Access to capital is not a huge issue. Cost of capital is a significant challenge.”

“Labor is more consistent and stable for skilled workers, but still a challenge for entry level. Overtime is up for year-end production demand. Health costs are up around 5% year over year. Supply chain for electronic parts is better, but seeing longer lead times for outdated electronic parts and some parts out of China.”

Table 1. Summary of Tenth District Manufacturing Conditions, December 2023

| Plant Level Indicators | December vs. November (percent)* | | | | December vs. Year Ago (percent)* | | | | Expected in Six Months (percent)* | | | | | |
|--------------------------------------|-------------------------------------|-----------|----------|-------------------------|-------------------------------------|----------|-----------|----------|--------------------------------------|----------|-----------|----------|-------------------------|------------------------|
| | Increase | No Change | Decrease | Diff Index ^A | SA Index ^{AA} | Increase | No Change | Decrease | Diff Index ^A | Increase | No Change | Decrease | Diff Index ^A | SA Index ^{AA} |
| Composite Index | | | | -10 | -1 | | | | -8 | | | | 6 | 6 |
| Production | 13 | 54 | 33 | -20 | -4 | 38 | 20 | 42 | -4 | 38 | 40 | 23 | 15 | 20 |
| Volume of shipments | 21 | 41 | 37 | -16 | -3 | 39 | 17 | 44 | -5 | 45 | 33 | 22 | 22 | 24 |
| Volume of new orders | 23 | 33 | 44 | -20 | -8 | 35 | 23 | 41 | -6 | 39 | 30 | 31 | 9 | 8 |
| Backlog of orders | 18 | 41 | 40 | -22 | -5 | 25 | 28 | 46 | -21 | 33 | 34 | 33 | 0 | 3 |
| Number of employees | 20 | 62 | 18 | 2 | 8 | 37 | 33 | 31 | 6 | 32 | 50 | 18 | 14 | 8 |
| Average employee workweek | 12 | 70 | 18 | -6 | 0 | 22 | 52 | 26 | -4 | 20 | 67 | 13 | 7 | 9 |
| Prices received for finished product | 7 | 82 | 11 | -3 | 3 | 55 | 27 | 18 | 37 | 38 | 46 | 16 | 22 | 25 |
| Prices paid for raw materials | 19 | 70 | 11 | 9 | 9 | 49 | 19 | 32 | 18 | 51 | 37 | 12 | 39 | 39 |
| Capital expenditures | | | | | | 33 | 47 | 20 | 13 | 26 | 55 | 19 | 7 | 5 |
| New orders for exports | 9 | 81 | 10 | -1 | 1 | 8 | 73 | 19 | -11 | 11 | 79 | 9 | 2 | -1 |
| Supplier delivery time | 6 | 85 | 9 | -2 | 1 | 20 | 39 | 41 | -20 | 14 | 72 | 14 | 0 | 0 |
| Inventories: Materials | 22 | 49 | 29 | -8 | 1 | 24 | 35 | 40 | -16 | 20 | 53 | 27 | -6 | -4 |
| Inventories: Finished goods | 20 | 61 | 20 | 0 | 4 | 27 | 43 | 29 | -2 | 16 | 58 | 26 | -10 | -12 |

*Percentage may not add to 100 due to rounding.

^ADiffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

^{AA}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 six-day period from December 13-18, 2023 and included 95 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Indexes

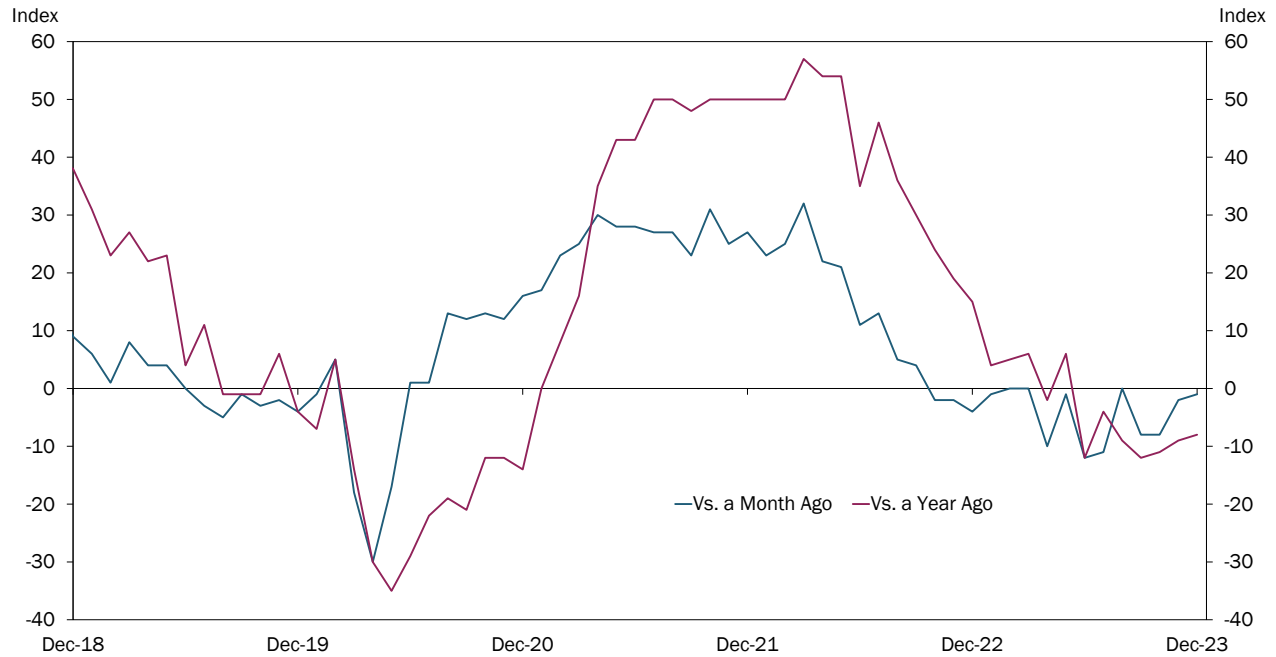


Chart 2. Special Question: What are your expectations for demand for your firm's products in 2024 compared to last year?

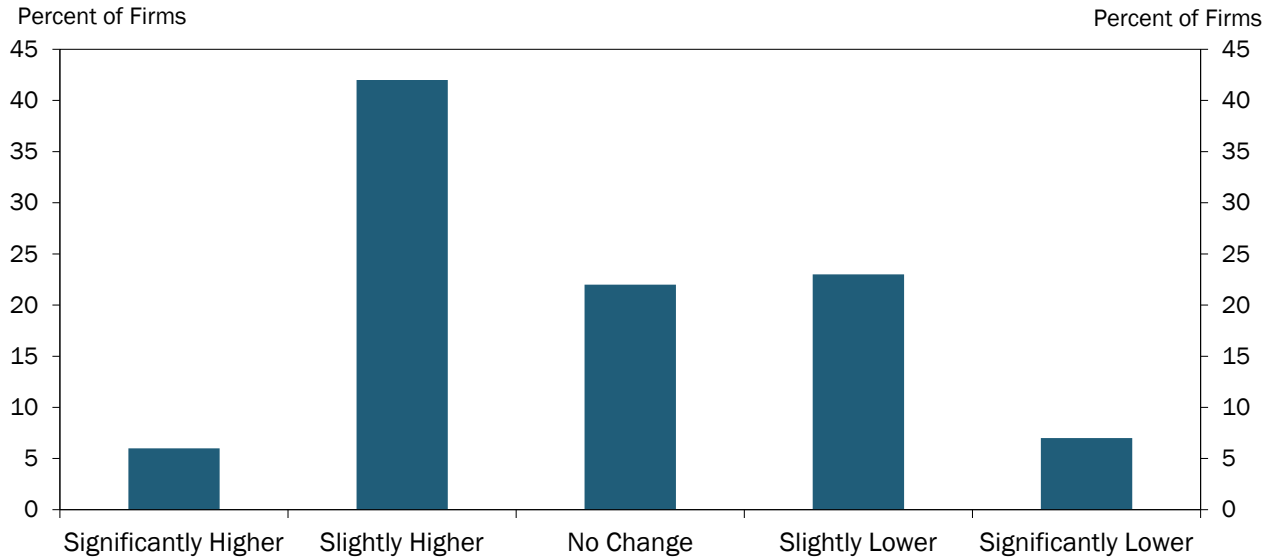


Chart 3. Special Question: What are your firm's expectations for capital expenditures in 2024 compared to last year?

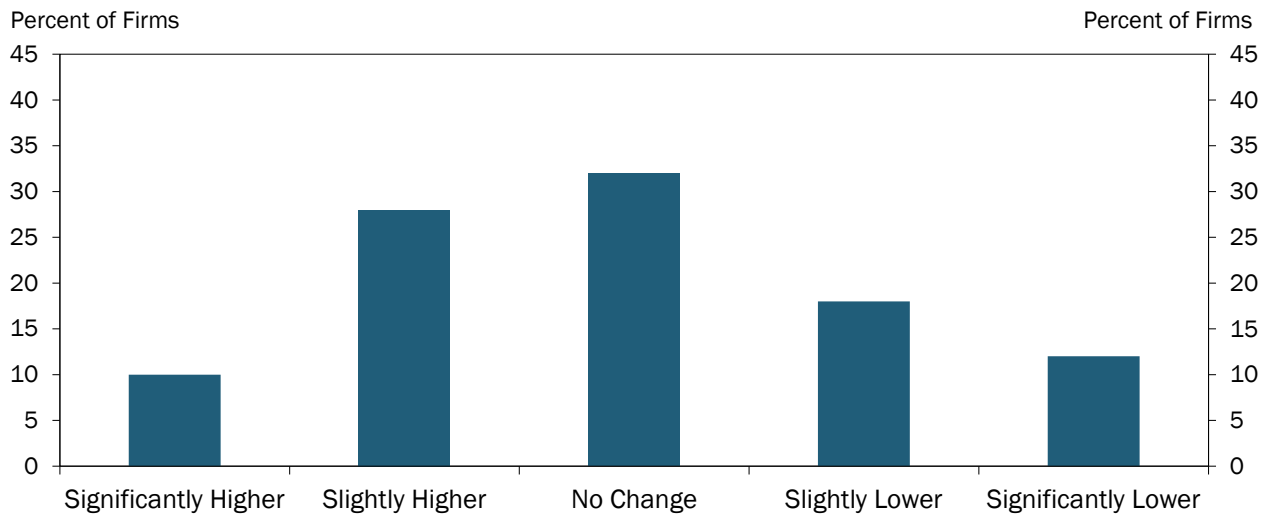


Table 2
Historical Manufacturing Survey Indexes

| | Dec'22 | Jan'23 | Feb'23 | Mar'23 | Apr'23 | May'23 | Jun'23 | Jul'23 | Aug'23 | Sep'23 | Oct'23 | Nov'23 | Dec'23 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Versus a Month Ago (seasonally adjusted) | | | | | | | | | | | | | |
| Composite Index | -4 | -1 | 0 | 0 | -10 | -1 | -12 | -11 | 0 | -8 | -8 | -2 | -1 |
| Production | -6 | -4 | -9 | 3 | -21 | -2 | -10 | -20 | 12 | -13 | -8 | -3 | -4 |
| Volume of shipments | 2 | 1 | -13 | 6 | -13 | -1 | -2 | -24 | 1 | -15 | -11 | 5 | -3 |
| Volume of new orders | -15 | -8 | -6 | -13 | -21 | -14 | -14 | -20 | -3 | -14 | -22 | 0 | -8 |
| Backlog of orders | -16 | -17 | -22 | -18 | -26 | -25 | -14 | -38 | -12 | -24 | -13 | -12 | -5 |
| Number of employees | 4 | 4 | 11 | 18 | -1 | 7 | -12 | 4 | 1 | 2 | -4 | -3 | 8 |
| Average employee workweek | 0 | -8 | -13 | -10 | 1 | -4 | -11 | -20 | -6 | 0 | 0 | -4 | 0 |
| Prices received for finished product | 15 | 16 | 17 | 13 | 21 | 16 | 3 | -7 | -6 | 2 | 0 | -3 | 3 |
| Prices paid for raw materials | 18 | 20 | 26 | 30 | 32 | 16 | 4 | 9 | 13 | 7 | -2 | 7 | 9 |
| 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 | -2 | -15 | -5 | 3 | -13 | -15 | -10 | -3 | -8 | -8 | -8 | -4 | 1 |
| Supplier delivery time | -3 | -1 | 2 | -6 | -3 | 1 | -8 | -6 | 2 | -1 | -4 | -5 | 1 |
| Inventories: Materials | -2 | 4 | 1 | -1 | -3 | 4 | -18 | -10 | -10 | -15 | 0 | 0 | 1 |
| Inventories: Finished goods | -2 | -6 | -11 | 2 | -13 | 1 | -10 | -3 | 6 | -10 | -1 | 0 | 4 |
| Versus a Year Ago (not seasonally adjusted) | | | | | | | | | | | | | |
| Composite Index | 15 | 4 | 5 | 6 | -2 | 6 | -12 | -4 | -9 | -12 | -11 | -9 | -8 |
| Production | 14 | 2 | 1 | 0 | -1 | 0 | -7 | 3 | 0 | -10 | -8 | -10 | -4 |
| Volume of shipments | 17 | 1 | 0 | 7 | 0 | -2 | -6 | 2 | -3 | -14 | -3 | 0 | -5 |
| Volume of new orders | 4 | -1 | -1 | -4 | -11 | 3 | -20 | -9 | -13 | -11 | -24 | -8 | -6 |
| Backlog of orders | 2 | -4 | 1 | -4 | -13 | -5 | -19 | -15 | -12 | -22 | -31 | -26 | -21 |
| Number of employees | 20 | 9 | 4 | 24 | 8 | 13 | 2 | 13 | -2 | 1 | 7 | 5 | 6 |
| Average employee workweek | 7 | 9 | -3 | -2 | -5 | -2 | -8 | -5 | -10 | -10 | -9 | -17 | -4 |
| Prices received for finished product | 73 | 58 | 70 | 72 | 63 | 54 | 55 | 39 | 40 | 39 | 44 | 42 | 37 |
| Prices paid for raw materials | 74 | 53 | 59 | 57 | 52 | 40 | 33 | 40 | 22 | 17 | 20 | 20 | 18 |
| Capital expenditures | 12 | 10 | 0 | 5 | 15 | 14 | 2 | 14 | 7 | 16 | 6 | 11 | 13 |
| New orders for exports | 3 | -14 | 3 | -3 | -8 | 1 | -5 | -1 | -15 | -13 | -13 | 1 | -11 |
| Supplier delivery time | 12 | -6 | 0 | -3 | -24 | -8 | -20 | -24 | -18 | -26 | -24 | -30 | -20 |
| Inventories: Materials | 27 | 16 | 19 | 14 | 19 | 22 | -14 | -4 | -10 | -13 | -6 | 0 | -16 |
| Inventories: Finished goods | 15 | 5 | 1 | 0 | 1 | 13 | -2 | -2 | 1 | -5 | -2 | -12 | -2 |
| Expected in Six Months (seasonally adjusted) | | | | | | | | | | | | | |
| Composite Index | 6 | 3 | 1 | 3 | 3 | 2 | -2 | -2 | 2 | 1 | 1 | -1 | 6 |
| Production | 22 | 10 | 13 | 13 | 14 | 13 | 15 | -1 | 11 | 2 | 10 | 16 | 20 |
| Volume of shipments | 16 | 7 | 3 | 11 | 9 | 9 | 10 | -4 | 4 | 3 | 17 | 9 | 24 |
| Volume of new orders | 4 | 4 | -2 | 3 | 3 | 3 | 2 | 0 | 8 | 6 | 2 | 11 | 8 |
| Backlog of orders | -12 | -10 | -19 | -22 | -19 | -10 | -13 | -20 | 2 | -3 | -8 | -6 | 3 |
| Number of employees | 11 | 28 | 14 | 15 | 13 | 11 | 10 | 17 | 17 | 15 | 11 | -1 | 8 |
| Average employee workweek | -3 | -4 | 0 | -1 | -1 | -2 | -8 | 2 | 3 | 0 | 5 | -8 | 9 |
| Prices received for finished product | 37 | 29 | 40 | 41 | 37 | 17 | 20 | 13 | 26 | 20 | 15 | 23 | 25 |
| Prices paid for raw materials | 34 | 27 | 42 | 40 | 40 | 21 | 13 | 23 | 29 | 30 | 17 | 29 | 39 |
| Capital expenditures | 10 | 10 | -3 | 5 | 4 | 9 | 14 | 16 | 17 | 9 | 3 | -4 | 5 |
| New orders for exports | 0 | -8 | 4 | 1 | 0 | 6 | -5 | -2 | -14 | 5 | 1 | 2 | -1 |
| Supplier delivery time | -2 | -8 | -11 | -11 | 2 | 2 | -12 | -5 | 0 | -4 | -9 | -17 | 0 |
| Inventories: Materials | -6 | -19 | -8 | -7 | -17 | -17 | -23 | -23 | -27 | -15 | -7 | -14 | -4 |
| Inventories: Finished goods | 0 | -7 | -5 | -11 | -9 | -10 | -17 | -15 | -14 | -13 | -12 | -9 | -12 |