Tenth District Manufacturing Activity Continued to Decline in May 2020

by: Chad Wilkerson

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Factory Activity Continued to Decline in May

Tenth District manufacturing activity continued to decline, but not as sharply compared to last month's record low (Chart 1, Tables 1 & 2). Expectations for future activity rose, but remained slightly negative. Month-over-month price indexes remained negative again in May. Moving forward, District firms expected prices for finished goods to decline and prices for raw materials to increase in the next six months.

The month-over-month composite index was -19 in May, up somewhat from the record low of -30 in April, and similar to -17 in March (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The decrease in district manufacturing activity was driven by further drops at durable goods factories, especially primary metals, fabricated metals, and transportation plants. On the other hand, activity at non-durable goods plants remained more solid. All month-over-month indexes remained negative in May. Year-over-year factory indexes fell further in May, and the composite index declined from -30 to -35. The future composite index increased from April, but remained slightly negative at -2.

Special questions

This month contacts were asked special questions about their expectations for when business activity will return to pre-COVID-19 levels and about current economic conditions as a result of COVID-19. Around 32 percent of factory contacts expect business activity to return to levels similar to activity before COVID-19 within 6-12 months once restrictions are lifted, while 23 percent indicated it would take more than a year for business activity levels to resume normalcy (Chart 2). However, 20 percent of manufacturing contacts, including some machinery and chemical plants, reported that business activity is currently at or above pre-pandemic levels. If current revenues were to continue, 72 percent of firms indicated their firms could survive for more than a year, while 28 percent reported their firm could survive only a fraction of that time if current revenue levels persisted. Over 61 percent of firms reported losses in productivity as a result of the COVID-19 pandemic and 52 percent of survey contacts experienced ongoing supply chain disruptions (Chart 3). Additionally, 25 percent of firms reported labor shortages due to the COVID-19 pandemic.

Selected comments

"We are very fortunate to be diversified and in an essential business category. Our people are proud to be working and we are proud to be taking care of customers. Looking forward to seeing a return to something that looks more normal."

"It would be helpful to have a better federal plan for testing, contact tracing, quarantine, and possible shut-down to help keep the economy running and to prevent a worse [outcome]."

"The work is starting to return. We were hardest hit early when the lockdowns were put in place, nearly half of open industrial orders were cancelled or put on hold."

"We need more government support. Once we get beyond July, will banks be able to lend, and adjust terms/covenants to give additional breathing room? If not, we expect more trouble is ahead."

"COVID has certainly hit our business but we are optimistic that it will still turn around before the end of the year. This will be a challenging summer for us... looking forward to the country opening up again."

"Given the record high unemployment we are seeing very little in the way of good candidates, even though we are recruiting and advertising for openings. We need to get people back to work."

"Keeping the economy open for business while balancing the health and safety of citizens is critical."

"Many of our customers have been able to pivot their product delivery which has sustained our business during the downturn. Certainly not where we would like it to be, but survivable at this point."

"PPP funds have allowed us to keep head count at current levels even though incoming work has dropped to minimal levels."

"Low oil prices is a major problem."

"Uncoordinated reopening schedules will delay our distribution outlets from being fully functional."

Survey Data

Current Release

Historical Monthly Data

Historical Quarterly Data

About Manufacturing Survey

Author

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Chad Wilkerson serves as Oklahoma City Branch Executive and Senior Vice President of Community Development for the Federal Reserve Bank of Kansas City. Wilkerson has been with the Federal Reserve since 1998, starting in Kansas City's research department.Appointed in 2006 as Oklahoma City Branch Executive, Wilkerson is the Bank's lead officer and regional economist in Oklahoma. He recruits and works closely with the Oklahoma City Branch Board of Directors and is responsible for briefing the Kansas City Fed president, a member of the Federal Open Market Committee, on economic trends in the state. His team conducts research and surveys on key regional issues such as energy, manufacturing and migration.Wilkerson was appointed Senior Vice President in 2022, and supports a Community Development team located across the Kansas City Fed's seven-state region. This group works to understand and address issues affecting the ability of underserved communities and small businesses to access credit. Community development focus areas include financial resiliency, affordable housing, community investments, workforce development, rural development and digital inclusion.Wilkerson holds a master's degree in public policy from the University of Chicago, as well as a master's degree from Southwestern Seminary and bachelor's degree from William Jewell College. He serves on the boards of the Economic Club of Oklahoma, the United Way of Central Oklahoma and City Rescue Mission. He lives in Edmond, Oklahoma, with his wife and children.