Tenth District Manufacturing Activity Rose Moderately in August 2020

by: Chad Wilkerson

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Factory activity rose moderately in August

Tenth District manufacturing activity rose moderately from July but remained below year-ago levels, while expectations for future activity expanded further (Chart 1, Tables 1 & 2). Prices paid for raw materials increased and prices received for finished goods were slightly positive. District firms expected prices for both finished goods and raw materials to expand more in the next six months.

The month-over-month composite index was 14 in August, moderately higher than 3 in July and 1 in June (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Non-durable goods factories continued to drive the uptick in recent activity, especially food and beverage manufacturers. Activity at durable goods plants grew slightly. The majority of month-over-month indexes were positive, indicating continued expansion. Production, shipments, and new orders grew considerably compared to a month ago. Only the month-over-month finished goods inventories index was still negative, but it declined at a slower pace in August. Most year-over-year factory indexes remained negative in August, but slightly less negative than in previous months. The future composite index expanded further in August to 19, up from 14 in July.

Special questions

This month contacts were asked special questions about the impact of government stimulus and unemployment benefits. Nearly two-thirds of contacts reported that government stimulus programs positively contributed to their business's performance in the past three months (Chart 2). Many firms noted the helpfulness of Paycheck Protection Program (PPP) loans in retaining staff, and around half of firms indicated their business outlook was dependent on additional government support of some sort. At the same time, almost 60% of contacts indicated the CARES Act extra $600/week or recent $400/week boost in unemployment benefits created some or significant difficulties in bringing furloughed or laid-off employees back to work (Chart 3). More than 40% of firms also reported difficulty sourcing inputs, especially from international suppliers.

Selected comments

"Difficulty hiring new employees - entry level employees can earn more on unemployment."

"No employees have been laid off or furloughed so far. Production volume is lower and the factory has been slowed down, but we hope to hold on to all employees if possible."

"We could not recruit any new employees until the extra $600/week expired. It has gotten a little better when it went to $400/week."

"I think the majority of our employees would rather come to work and earn a pay check than rely on the increased unemployment benefits."

"We believe [employment] will improve now that the additional unemployment benefit has expired. For our area, $600/week was outside of the price we are able to afford for manufacturing employees."

"Some materials are taking longer to receive than normal and seeing some good price increases for high demand products."

"Materials, shipments have been majorly delayed from our U.S. vendors due to their parts not coming from overseas… our machine assembly line is now shut down until they are received"

"We had a solid backlog when COVID-19 hit, but we have worked through the backlog and have seen a large decrease in new orders."

"Our April business was off 60%, May off about 15%, June & July off about 8 - 10%. Without the stimulus we would have had significant layoffs in April/May. Lately, business has been stable, off a bit in areas to be expected with COVID, but stable."

“PPP assisted in keeping our staff at the factory on board and working on fulfilling orders.”

“Spending by the market and government for COVID-19 related testing has increased our orders.”

“Our business went up with the virus so the [government] stimulus had no effect for us.”

Survey Data

Current Release

Historical Monthly Data

Historical Quarterly Data

About Manufacturing Survey

Author

Chad Wilkerson

Senior Vice President and Oklahoma City Branch Executive

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.