Tenth District Manufacturing Activity Expanded at a Slower Pace in October 2018

by:

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Tenth District manufacturing activity expanded, but at a slower pace. Expectations for future activity eased slightly, but remained positive.

Tenth District manufacturing activity expanded at a slower pace in October compared with the rapid expansion earlier in the year. Expectations for future activity growth also eased slightly, but remained positive. Price indexes mostly declined from high levels in recent months.

The month-over-month composite index was 8 in October, down from 13 in September and 14 in August (Tables 1 & 2, Chart 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The decline in factory growth was driven by slower expansion at durable goods plants, especially for machinery, computer and electronic products, and transportation equipment, while activity at nondurable goods plants increased. Month-over-month indexes were mixed in September, but positive overall. The production and new orders indexes declined slightly, while the order backlog and new orders for exports indexes inched up. The shipments and employment indexes both increased. The materials inventory index declined and the finished goods inventory index was unchanged from last month's reading.

Most year-over-year factory indexes rose in October. The composite index grew from 41 to 45, and the production, shipments, new orders, and employment indexes all increased. In contrast, the new orders for exports index was unchanged, and the order backlog index inched lower. The capital expenditures index declined after a record posting last month. The finished goods and raw materials inventory indexes both came down somewhat, but remained high.

Future factory activity expectations eased somewhat. The future composite index edged down from 27 to 21, and the future employment, capital expenditures, and new orders for exports indexes also fell. The future production index moved lower, while the future shipments index was unchanged. On the other hand, the future new orders and order backlog indexes increased. The future raw materials inventory index decreased, and the future finished goods inventory index fell into negative territory for the first time since late 2016.

Most price indexes fell in October. The month-over-month finished goods price index dipped from 24 to 19, and the raw materials price index declined from 45 to 33. The year-over-year finished goods price index rose from 56 to 60 while the year-over-year raw materials price index inched down from 79 to 78. The future finished goods price index declined from 44 to 38, and the future raw materials price index fell from 57 to 37.

This month firms were asked special questions about investment in labor-saving technology and the impact of tariffs. Nearly 49 percent of respondents reported increasing investment in labor saving technology over the past year (Chart 2). On tariffs, more than 52 percent of respondents reported more input/output price pressures due to changes in tariffs, with many passing those increases through to the customer (Chart 3).

SELECTED COMMENTS

"We have had to commit to material further out in the future to secure both tariffed and non-tariffed materials. Uncertainty… is causing future material prices to go up. More time and effort is spent on material/resource allocation instead of routine supply chain processes."

"U.S. steel mills have significantly raised prices and extended lead times which are affecting the supply chain."

"Supply chain prices are up 5-8 percent. With new orders we are passing along those cost increases. However, for existing contracts we've had to absorb the cost. Consequently, our profit margin is 3 percent lower."

"Margins are being reduced due to lack of labor availability, supply chain effects of tariffs both on component costs (increasing) and sales opportunities (decreasing)… make it difficult to get all components in house in time for building products."

"Labor is still a big issue. We have staffed all departments but keep losing employees as other companies steal them away with promises of higher wages."

"Our backlog of orders is at an all-time high but the challenge to hire and retain quality production personnel remains a major issue."

"Tariff charges are being added to some invoices in the supply chain."

"Our clients can go to Mexico and get products without tariffs even though they bought the same exact material from the same exact sources as we did, while we are paying 10 to 25 percent more for material."

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