



Tenth District Manufacturing Activity Decreased Further in December 2019

by:

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Tenth District manufacturing activity decreased further in December while expectations for future activity remained positive.

Factory activity decreased further in December

Tenth District manufacturing activity decreased further in December while expectations for future activity remained positive (Chart 1). The month-over-month prices for raw materials increased, while prices for finished products eased slightly from a month ago. District firms expected higher prices in the next 6 months.

The month-over-month composite index was -8 in December, down from -3 in both November and October (Table 1). 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 continued to be driven by weak activity at durable goods plants, especially from declines in: wood products, nonmetallic mineral products, primary metal, fabricated metal products, machinery, and computer and electronic products manufacturing. Most month-over-month indexes fell in December. The shipments index turned negative and the production, new orders, order backlog, and employment indexes declined further. Aside from the index for raw materials prices, only the supplier delivery time index remained slightly positive. Year-over-year factory indexes also dipped in December, and the composite slowed from 6 to -4. The future composite index moderated from 15 to 10 in December, but remained positive.

Special questions

This month contacts were asked special questions about net profits and the impacts of conditions in other industries on their business activity. Nearly 44 percent of District manufacturing contacts reported higher net profits over the past year, but a similar share reported lower net profits (Chart 2). Over 56 percent of firms expect net profits to increase at some level over the next year. Just over 50 percent of contacts indicated that weakening in other goods-producing sectors (such as agriculture and energy) was leading to weaker conditions for business activity in their area (Chart 3). Another 24 percent of firms reported strengthening in other goods-producing sectors was leading to stronger conditions, while 26 percent of firms reported no connection between other goods-producing sectors and business activity.

Selected comments

"The cost of fossil fuel energy has a direct impact on our business. The higher the cost of fossil fuels, the stronger the conditions in my business, and vice versa."

"Weakness in the oil and gas market is significantly negatively impacting our business until we can offset that business with work from other sectors."

"Our business is somewhat seasonal, so this month vs. last being down is a normal cycle. Overall customer spending is more robust than years past."

"The holiday seasonal temp workers have made it even more difficult for us to find and retain employees. We literally have people coming to us for the first day of work and leaving because they got an offer \$1 to \$2 higher down the street. Labor is and continues to be our biggest struggle."

"Overall the economy is running smoothly at this time without major wage pressure or problems finding reasonable labor for entry-level work. We regularly train personnel and promote from within and are finding more personnel who are interested in improving their own skills."

"Best winter backlog we've see in a while."

"We are being aggressive and proactive in both sales and the pricing arena."

"Capital expenditures and labor efficiency has helped the bottom line for net profits."

"We are on hold until someone decides what the next round of tariffs will be."

"The tariff on steel and the trade issues are still a concern for 2020. We are being very conservative on capital expenditures and use of cash until these two things calm down."

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