



Tenth District Manufacturing Activity Expanded Further in December 2020

by: Chad Wilkerson

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Tenth District manufacturing activity expanded further in December. Manufacturing activity was still below year ago levels, but expectations for future activity were positive.

Factory Activity Expanded Further

The month-over-month composite index was 14 in December, up from 11 in November and 13 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 at non-durable plants declined slightly, while activity at durable goods factories expanded more. Food and beverage production dipped, but transportation equipment manufacturing increased. Month-over-month indexes were positive, indicating continued expansion. Shipments, new orders, order backlog, employment, new orders for exports, and supplier delivery time increased at a faster pace. Materials inventories rebounded while finished goods inventories declined further. Year-over-year factory indexes declined slightly in December, and the composite index dipped from -12 to -14. The future composite index was slightly lower than 21 in November but remained positive at 17 in December.

Special questions

This month contacts were asked special questions about the recent surge in COVID-19 cases and their expectations regarding capital outlays and restraints. More than three-quarters of factory contacts indicated the recent surge in COVID-19 cases has negatively affected their firm's business (Chart 2). Many contacts noted that more employees have missed work recently after testing positive for COVID-19 or being exposed to the virus, and other contacts reported weaker demand from customers. Regarding capital outlays, 71% of firms reported investing in equipment to enhance production capacity as their primary motivation for the upcoming year, and 61% listed labor-saving technology (Chart 3). Another 35% of contacts said IT infrastructure was a primary motivator for capital outlays in the upcoming year. On the other hand, over half of firms indicated they will be reducing capital outlays for facilities for the upcoming year.

Selected comments

“New orders placed by our customers for next year are very encouraging. We are starting to see a nice rebound in sales from 2020 (down 20%+).”

“The US-imposed tariffs continue to cause price increases to the consumer.”

“We are reducing hours and costs to adjust to... the reality of lowered activity combined with typical seasonality... and believe that activity will resume in the spring.”

“The impact of COVID-19 has been devastating yet hard to measure. It affects everything at once such as supply of cattle, labor availability, demand for wholesale beef, demand for retail beef, export markets, transportation, availability of cold storage, availability of dry ice, just to name a few.”

“We're concerned about transportation -- freight costs, regulations leading to reduced capacity.”

“Our business planning assumptions are based on no changes in the current tax laws and/or regulation. Should business and personal taxes and/or regulations negatively change, then all bets are off.”

“Due to permanent restaurant/bar closures, our business may take years to fully recover from the government imposed restrictions.”

“More stimulus or less regulation/restrictions will be needed in order to avoid a major downturn.”

“We already burned through cash reserves... shutdown business-lay off employees is next step.”

“Banks are willing to lend with tighter covenants.”

“Another round of PPP would be beneficial in our industry to allow some employees on the bubble to retain their jobs.”

“Our infrastructure was adequate prior to the downturn and there is no need to make additional changes until opportunities arise.”

Survey Data

Current Release

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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.