



Tenth District Manufacturing Activity Increased at a Faster Pace in January 2021

by: Chad Wilkerson

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Factory Activity Increased at a Faster Pace

Tenth District manufacturing activity increased at a faster pace in January compared to a month ago and was similar to year ago levels (Chart 1, Tables 1 & 2). Expectations for future activity rose further. Prices paid for raw materials continued to rise rapidly, to the highest reading since 2011. Prices for finished goods also expanded from a month ago and a year ago. District firms expected prices for both raw materials and finished goods to increase further in the next six months.

The month-over-month composite index was 17 in January, up from 14 in December and 11 in November (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Activity rose more at durable goods plants, driven by manufacturing of primary metals, machinery, electronics, and transportation equipment. Production, shipments, new orders, employment, employee workweeks, new orders for exports, and supplier delivery time increased further in January and order backlog expanded at a steady pace. Materials inventories remained positive while finished goods inventories were slightly negative. Year-over-year factory indexes were somewhat mixed in January, but the composite index was flat at 0. The future composite index expanded to the highest level in over a year at 24, up from 17 in December.

Special questions

This month contacts were asked special questions about the potential effects of widespread COVID-19 vaccination on business activity. 93% of contacts indicated widespread COVID-19 vaccination is important to their firm's overall business outlook for 2021, with 40% indicating it is "somewhat important" and 53% calling it "very important" (Chart 2). Many contacts remarked on the need for a vaccine for both workers and consumers to increase business. Contacts also noted that continued COVID-19 outbreaks or related government shutdowns would have a significant negative impact in the near-term. For hiring, 14% of contacts indicated the COVID-19 vaccine rollout has negatively affected plans for 2021 because of the slow rollout so far (Chart 3). On the other hand, 8% of contacts noted the vaccine rollout has positively affected hiring plans for later in 2021. For capital spending, 15% of firms indicated the vaccine rollout has had negative effects on plans for 2021 again because of delays and hesitant demand from consumers. Conversely, 14% of firms reported positive capital spending plans for 2021 based on the vaccine rollout. Overall, many firms noted the vaccine rollout has had no serious impact on hiring and capital spending plans in 2021 because it is "too early" to tell or vaccine rollout is "too slow" to change plans.

Selected comments

"If we want to get our economy back on track our country needs to put a priority on getting the population vaccinated."

"Our business levels are up vs. last year already. The vaccine will help the general economy, which should increase our business even more."

"We are hopeful that bipartisanship will reemerge, stimulus will be strong and that the vaccine rollout gains momentum quickly. If this can happen, the economy can recover quickly."

"The vaccine rollout has not directly affected our hiring plans. Hiring signals will come from increased customer demand."

"Our internal protocols seem to be working well as we have had very few infections among our employees since June."

"We have had several people who missed work with the virus which affected productivity within our business. We still have many people who have not contracted the virus and it would be good for us to keep them healthy."

"Getting new employees is very challenging."

"Unemployment bonuses make it incredibly hard to hire entry level employees. Our manufacturing output is significantly constrained as a result."

"We need our supply chain to be able to supply more materials."

“Steel costs are increasing weekly, sometimes quite a bit, like 5-10% in one week we have seen. Lead times are also pushing out. Confirmed PO’s are coming in six weeks late. The supply chain folks need to get their capacity up and soon.”

“With the negative impact on oil and gas drilling we will not have any capital equipment investments and will not be adding any additional employees and may have to do layoffs if our first PPP loan is not forgiven.”

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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.
