



Tenth District Manufacturing Activity Climbed Higher in February 2021

by:

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Factory Activity Climbed Higher

Tenth District manufacturing activity climbed higher in February compared to a month ago and a year ago, and expectations for future activity increased (Chart 1, Tables 1 & 2). Prices paid for raw materials continued to increase, reaching the second highest pace of growth in survey history. Prices for finished goods also grew more from a month ago and a year ago. District firms expected prices for both raw materials and finished goods to expand further over the next six months

The month-over-month composite index was 24 in February, up from 17 in January and 14 in December (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Manufacturing activity growth was driven by durable goods plants, specifically by primary and fabricated metals, machinery, and transportation equipment. Month-over-month indexes for production and employment increased at a faster pace in February and supplier delivery time rose significantly. Shipments and new orders growth was positive in February, but slower than in recent months. Materials inventories expanded while finished goods inventories declined. Year-over-year factory indexes were positive in February in the first time since February 2020. However, employment continued to lag year-ago levels. The future composite index rose further to 34 up from 24 in January, with an uptick in capital spending plans.

Special questions

This month contacts were asked special questions about worker shortages as well as materials prices and shipping delays. 71% of contacts indicated workers are in short supply overall. Half of firms recorded that a skills match is a key reason for the short supply of workers and 44% indicated the extra unemployment benefits are another reason (Chart 2). Over a third reported that the worker shortage is due to workers unwilling to return to work due to COVID, taking care of family, childcare issues, etc. Over a quarter of firms noted that the lack of childcare for their current workforce has resulted in excessive absenteeism and a reduction in productivity. Concerning costs and shipping, 85% of contacts said their business has been negatively affected by rising material prices and lack of availability/delivery time (Chart 3). Several firms indicated materials prices are rising faster than they are able to pass on to customers, negatively impacting profit margins. Additionally, recent weather events exacerbated delivery time delays.

Selected comments

“We have not been able to ship water-based products/freezeables since February 5th. We have a lot to ship out, but it has been slow the last two weeks.”

“Last week’s weather in the southwest took us out of production for 4.5 days due to electricity/natural gas debacle.”

“Finished goods prices are up due to truck lines not running or limited running for the past two weeks. Weather related.”

“Raw materials prices are skyrocketing and supply seems limited.”

“We are seeing a significant increase in new orders. We are having a hard time ramping up staffing to meet the increase in business we are seeing.”

“Shortage of drivers and the higher cost of raw materials has the potential to curtail our rebound to 2019 sales levels.”

“Our biggest struggle is hiring unskilled workers and getting them to show up for more than just the first few days (starting wage =\$15.00/hour). Also, just after current/longtime employees received their second stimulus checks in January, no one was willing to work any overtime, although that seems to have passed now. Our HR/Accounting person is having to spend time on unemployment appeal hearings, where workers quit last year when the increased unemployment benefits began.”

“Low unemployment rate in our area plus lower workforce participation rate make it difficult to find workers.”

“Some workers are able to work from home. Absenteeism is higher for those who are not able to work remotely.”

“We are raising our prices to our customers as fast as we can, due to our raw material costs blowing up.”

“Our broadline food distributor customers are still down approximately 30%. Multi-unit restaurant chains are up, and retail grocery is stable. Some of our main restaurant customers have pivoted well to carry out.”

Survey data

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