Tenth District Manufacturing Activity Increased at a Slower Pace in September 2020

by: Chad Wilkerson

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Tenth District manufacturing activity increased at a slower pace in September and remained lower than a year ago, while expectations for future activity were positive (Chart 1, Tables 1 & 2). Prices paid for raw materials and finished goods rose further. District firms expected prices for both raw materials and finished goods to grow in the next six months.

Factory Activity Increased at a Slower Pace

The month-over-month composite index was 11 in September, slightly lower than 14 in August but higher than 3 in July (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 and durable goods factories expanded at a similar pace. The increase in activity at food and beverage manufacturers was slower in September than in previous months, when activity bounced back more sharply. Most month-over-month indexes remained positive, indicating continued expansion. Production, shipments, new orders, and employment rose at a slower pace, while order backlog and supplier delivery time increased. The indexes for employee workweek and new orders for exports dipped slightly, and inventory indexes for materials and finished goods were negative. Most year-over-year factory indexes remained negative in September, and the composite index declined from -19 to -21. The future composite index was still positive in September at 18, similar to expectations in August.

Special Questions

This month contacts were asked special questions about wages for workers that were furloughed and then rehired, in addition to questions about expected wage growth and business plans. For factories that furloughed workers, most contacts indicated that wages for rehired/returned employees were the same as before workers were furloughed (Chart 2). However, 71% of contacts reported they did not furlough workers. Overall, firms anticipated slightly lower wage and salary growth in the year ahead. Specifically, 36% of firms thought wage and salary growth would be lower than in the previous year, while 28% said it would be higher. In the next six months, more than 60% of firms expected to identify and hire new employees and/or increase marketing or sales (Chart 3). Around one-third of contacts also expected to identify new supply chain options and/or develop online sales or websites. More than 20% of firms noted they would need to obtain financial assistance or additional capital.

Selected Manufacturing Comments

“Reduction of workforce has allowed us to make higher demands of remaining workers and then pay them more from the proceeds of attrition.”

“We saw some significant increases in wages that we do not expect to be repeated in the coming year.”

“Sales are at rock bottom, no overtime required. We have taken reduction in salary of 20%.”

“Furloughs just occurring now. Wages will be the same per collective bargaining agreement.”

“Extreme shortage of employees. Wages continue to increase.”

“It is extremely difficult to find enough employees! Not just here, but at all of our locations, and this is for all level of employees: entry level/operations level/skilled level.”

“CARES unemployment bonus is killing us. In 20 years, it's never been harder to hire entry level manufacturing employees because they make more staying home. It's constraining our growth and forcing us to subcontract work because we can't process in-house what we normally do.”

“We continue to see reasonable activity but some increased difficulty in the new order generation. We are producing and shipping at high levels with confidence that we will be able to obtain the orders in future periods to maintain an active pace. While we see some market pressures around compensation, they are not highly inflationary.”

“Requests for quotes are slowly increasing but the workload is still low compared to previous years.”

“We have some good work in the pipeline, however we may not have capital to fund the work due to expenditures during the COVID-19 downturn. Really would benefit from an additional PPP loan.”

“As of now, it appears there will be more sales in late Q4, which will increase the need for production employees. While the company has avoided furloughs and layoffs so far, positions open from terminations, retirements, etc., have not been filled due to lower demand.

Author

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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.