Regional factory activity increased at a record pace in March. However, due to increasing input costs and supply chain disruptions, nearly a quarter of firms noted a significant decrease in profit margins since the beginning of the year, and another 44% reported a slight decrease in profit margins.

Factory Activity Grew at a Record Pace

Tenth District manufacturing activity reported record high growth and expectations for future activity remained solid (Chart 1, Tables 1 & 2). The monthly index of raw materials prices increased modestly in March and inched down compared to a year ago. Finished goods price indexes saw slight growth from a month ago and were above year-ago levels for most firms. Expectations for future raw materials and finished goods prices increased further.

The month-over-month composite index was 37 in March, the highest on record. It is up from 29 in February and 24 in January (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Increased activity was driven by growth in printing and paper, plastics, electrical equipment, furniture and related product manufacturing, and especially transportation equipment. On the other hand, the pace of growth for food and machinery manufacturing declined. Month-over-month indexes remained positive in March, indicating expansion. Indexes for production, shipments, new orders, backlog of orders, and supplier delivery time increased at a faster rate in March. However, the pace of growth for number of employees and new orders for exports moved down.

Materials and finished goods inventories expanded upward modestly. Year-over-year factory indexes continued to increase and broke a record high, with a composite index of 57. Production, shipments, and employment indexes increased further from a year ago while growth in materials inventories eased slightly. The future composite index was 41 in March, a slight increase from 38 in February. More firms expected increases in production, shipments, new orders, finished products, and supplier delivery times.
Special Questions

This month contacts were asked special questions on profit margins, changing prices, and the impact of the Russia/Ukraine conflict on their business. In March, 47% of firms reported increasing prices much more often compared to last year, and 32% raised prices somewhat more often (Chart 2). However, 44% of firms reported a slight decrease and 23% reported a significant decrease in profit margins since the beginning of the year (Chart 3). Firms reported that the majority of impacts from the Russia/Ukraine conflict centered around supply chain disruptions and higher input costs.

Selected Manufacturing Comments

“[Profit] margins were very slim in January. A little better now, but still not where they need to be for sustainability.”

“Sales price increases lag purchased goods by 3 to 9 months, due to the nature of the sales bid-award-issue process.”

“The employee problems everyone is facing have only gotten worse, this has and will continue to be our biggest hurdle for our company and so many others.

“Overall, it feels like demand for our products is plateauing. After months of almost unprecedented demand increases, orders seem to be leveling off - not decreasing, just leveling off. Hopefully we can have a ‘soft-landing’ from these crazy times and not a sharp drop off a cliff...”

“Lumber prices have gone back up after trending down last summer. Truckload freight haulers are in scarce supply and escalating in cost. Entry level laborers are still difficult to attract. Customers are relenting and granting price increases. Their alternative is to not get the needed packaging items, to enable them to ship their products.”

“We expect continue increases in raw materials pricing. Particularly related to freight and oil inputs (i.e., plastic packaging). We will be forced to increase pricing accordingly.”

“We’ve passed on cost increases to our customers and continue to do so. We’re starting to see some customers now motivated to see alternatives, but we have no choice.”

“Effect on us [from the Russia/Ukraine conflict] is energy and freight price increases, freight delays. We have to pass on longer lead times and price increases.”

Survey Data

Current Release
Chad Wilkerson
Senior Vice President and Oklahoma City Branch Executive

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.