Tenth District Manufacturing Edged Down in September 2019

by:

September 26, 2019

Tenth District manufacturing activity edged down in September, and expectations for future activity moderated but remained positive.

Factory activity edged down in September

Tenth District manufacturing activity edged down in September, and expectations for future activity moderated but remained positive (Chart 1). The month-over-month price index for raw materials continued to fall, while the price index for finished products inched higher. Firms continued to expect prices to rise over the next 6 months, but at a slower pace.

The month-over-month composite index was -2 in September, up slightly from -6 in August and similar to -1 in July (Table 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The dip in manufacturing activity was driven by continued declines at durable goods plants, especially from decreases in nonmetallic mineral products, primary metal, computer and electronic products, and transportation equipment manufacturing. While the month-over-month employment index dropped further in September, the production and shipments indexes rebounded considerably. Year-over-year factory indexes were somewhat mixed in September, but the composite index was unchanged at -1. The future composite index remained positive, but slowed from 9 to 5, the lowest future composite index since May 2016.

Special questions

This month contacts were asked special questions about employment levels and capital spending plans compared with their expectations from early 2019. Nearly 34 percent of regional manufacturing contacts indicated that their number of expected employees for 2019 was higher since the beginning of the year, while 25 percent had lowered expectations for 2019 employment levels (Chart 2). Regarding capital spending, 30 percent of firms have delayed their plans in 2019, and 25 percent have delayed their capital spending plans for 2020 (Chart 3). However, 18 percent of firms have accelerated their 2019 capital spending plans, and more than 11 percent have accelerated their capital spending plans for 2020.

Selected comments

“The tariffs on the products we export to China have had a major negative effect on our operations.”

“Human capital will continue to be an issue for the foreseeable future and into 2021. We are seeing acquisitions of customers that are jeopardizing our incumbent business. We are not seeing any on-shoring of new customers due to tariffs. We are still seeing off-shoring to Asia and Mexico of our customers.”

“Trade deals are important. 50%+ exports for us is to Mexico and Canada. Election year looks to be slowing decisions for customers already.”

“We have had to delay capital spending due mainly to high tariff taxes that we cannot pass along.”

“Finding quality manufacturing labor has been a challenge. We’ve invested in equipment to use less labor moving forward.”

“Some outsourcing of components to low cost countries impact next year’s employee headcount. We are moving towards assembly only.”

“Very strong orders going into the end of Quarter 3 and start of Quarter 4. We have filled most line positions but continue to look for skilled employees.”

“Our biggest challenge is getting and retaining employees.”

“We are currently struggling to find good young workers to replace our aging workforce.”

“The volume of new orders has declined significantly during 2019 versus 2018. Hopefully, this trend will reverse itself in 2020.”

“Activities have stayed steady but the future is hazy. Our salesforce is redoubling their efforts to capitalize on any and all projects available. We are being very aggressive.”

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