



## Tenth District Manufacturing Activity Continued to Expand Solidly in July 2018

by:

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Tenth District manufacturing activity continued to expand solidly in July, with the composite index dipping slightly after May's record-high reading. Expectations for future growth remained high, despite many firms citing labor tightness and tariffs as increasingly worrisome. Price indexes also continued to rise. The month-over-month composite index was 23 in July, down from readings of 28 in June and 29 in May (Tables 1 & 2, Chart 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Factory activity increased solidly at durable and nondurable goods plants, particularly for petroleum and coal products, minerals, fabricated metal, computers and electronics, and transportation equipment. Month-over-month indexes were mixed compared with the previous month, but most indexes remained at high levels. The employment index inched up while the order backlog and new orders for exports indexes were virtually unchanged. The production and shipments indexes fell moderately, and the new orders index eased somewhat. The raw materials index fell modestly and the finished goods inventory index also dipped slightly.

Most year-over-year factory indexes inched up in July. The composite index increased marginally from 43 to 44. The production, order backlog, capital expenditures, and new orders for exports all improved. However, the shipments and new orders indexes declined modestly and the employment index was mostly unchanged. The raw materials inventory index dipped from 36 to 32 and the finished goods inventory index eased from 26 to 23.

Future factory activity indexes were mixed, but remained at high levels. The future composite index eased from 36 to 34. The future order backlog and employment indexes both improved modestly, and the capital expenditures and new orders for exports indexes inched up. The future shipments index remained at 52 while the future production and new order indexes dipped slightly. The future raw materials index moderated from 30 to 15, while the future finished goods inventory index declined from 23 to 7.

Most price indexes increased in July. The month-over-month finished goods price index rose from 22 to 27 and the raw materials price index increased from 47 to 52. The year-over-year finished goods price index was unchanged at 60, while the year-over-year raw materials price index rose from 79 to 86. The future finished goods price index grew from 40 to 43 and the future raw materials price index inched up from 67 to 68.

## Selected Comments

“There is a lot of work and no one to make the products. We have been trying to add an extended shift and can’t get anyone. Offering \$1,000 sign up bonus and no one is coming to apply.”

“In general, the economy is strong and employees are adequately available. We are training talent internally and do not see the current labor market to be significantly worse than others in which we have operated successfully.”

“Labor availability (even if unqualified) is a key constraint to growth.”

“We cannot raise our prices fast enough to keep pace with ridiculous cost increases caused by tariffs and threats of tariffs. We expect to make less profit in 2018 than last year, which is keeping us from hiring more people and paying bonuses. We are focusing more on automation to combat being on the losing end of tariff cost increases.”

“Customers and large global companies are pushing back on pass through price increases from increased material costs.”

“Despite difficulties with tariffs, we are experiencing growth we have not seen in several years. Belief is that this growth is fueled by difficulties our competitors are experiencing.”

“The price of steel has increased 35 percent since January. With higher priced steel and a difficult labor supply, we will begin for the first time ever to investigate outsourcing steel parts, and if successful reduce capital spending.”

“The trade development have an adverse effect on cost thus causing prices for finished goods to rise. To date the steel available in the U.S. is not of comparable quality with the type from overseas suppliers being utilized in our processes.”

“We have been able to absorb the drastic increase in metal pricing up to now. Price increases for finished products will have to increase within the next few months.”

“Tariffs are increasing steel and steel component prices and will increase the cost of components supplied from China. We are being more cautious with capital expenditures as a consequence.”

“We have seen no effect from tariffs yet. We are concerned the next six months will bring change.”

## Survey Data

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