

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING ACTIVITY FELL SLIGHTLY *Federal Reserve Bank of Kansas City Releases December Manufacturing Survey*

KANSAS CITY, Mo. The Federal Reserve Bank of Kansas City released the December Manufacturing Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District manufacturing activity fell slightly in December, but producers' expectations for future activity improved modestly.

"The drop in regional factory activity appears like it will be temporary, and was at least partly driven by bad weather", said Wilkerson. "Firms remain generally optimistic about the first half of 2014, despite continued uncertainty about fiscal policy and regulations."

A summary of the December survey is attached. Results from past surveys and release dates for future surveys can be found at www.kansascityfed.org/research/indicatorsdata/mfg.

The Federal Reserve Bank of Kansas City serves the Tenth Federal Reserve District, encompassing the western third of Missouri; all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming; and the northern half of New Mexico. As part of the nation's central bank, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing financial services to depository institutions. More information is available online at www.kansascityfed.org.

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TENTH DISTRICT MANUFACTURING SUMMARY

Tenth District manufacturing activity fell slightly in December, but producers' expectations for future activity improved modestly. Some contacts cited poor weather, and continued fiscal and regulatory uncertainty as reasons for the December slowdown. Slightly over half of all respondents noted labor shortages, with nearly one third indicating additional wage pressures. Current price indexes posted few changes, but expectations for future prices continued to rise.

The month-over-month composite index was -3 in December, down from 7 in November and 6 in October (Tables 1 & 2, Chart). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The production index fell at nearly all types of durable goods plants, while production at nondurable goods plants declined at a slower rate than last month. Most other month-over-month indexes decreased over the last month. The production index plunged from 11 to -17, and the new orders, shipments, and order backlog indexes all dropped considerably. The employment index edged lower from 6 to 2, and the new orders for exports index also eased somewhat. The raw materials inventory index moved into negative territory, while the finished goods inventory index improved slightly.

The majority of year-over-year factory indexes moderated in December. The composite year-over-year index decreased from 9 to 3, and the production, shipments, and order backlog indexes fell below zero. The new orders index dropped from 21 to 6, while the capital expenditures index was unchanged. The employment index edged higher from 4 to 7, and both inventory indexes increased slightly.

Most future factory indexes continued to improve somewhat and were at solid levels. The future composite index rose from 12 to 14, and the future production, shipments, and new orders indexes also increased. The future order backlog index edged up from 7 to 8. The future employment index eased from 20 to 14—still the second highest level posted this year—and the future capital expenditures index fell slightly. The future raw materials inventory index decreased from 2 to 0, and the future finished goods inventory index also edged lower.

Price indexes were mixed. The month-over-month raw materials price index rose from 17 to 21, while the finished goods price index eased somewhat. The year-over-year finished goods price index fell modestly, but the raw materials price index was basically unchanged. The future raw materials price index increased from 31 to 37, and the future finished goods price index moved higher, indicating more firms plan to pass recent cost increases through to customers.

SELECTED COMMENTS

“November and December have been more seasonal than they have for the last several years – only 18 days in November hurt us. We are hoping 20 business days in December will help, but UPS not picking up on the 31st won’t help.”

“We are increasing our inventories because of announced January 1st increases in raw materials. There are no reasons given for the increase.”

“It has been a strong 4th quarter and we have orders coming in for January. Labor is available but the quality of the work force is very discouraging. Basic skills are in short supply.”

“Our distributors still do not want to carry inventory. They feel things may be improving in Washington but it is too soon to tell.”

“We think things are looking up past the first quarter, but time will tell. There is still too much uncertainty and burden from increasing costs of compliance with ballooning federal regulations.”

“We are closing this plant and moving most of the production to our Mexico plant due to low sales and lower cost to do business in Mexico.”

“Uncertainty in Washington in all matters continues to plague our economy and strangles meaningful sustainable growth.”

Table 1
Summary of Tenth District Manufacturing Conditions, December 2013

Plant Level Indicators	December vs. November (percent)*					December vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index^	SA Index**	Increase	Change	Decrease	Diff Index^	Increase	Change	Decrease	Diff Index^	SA Index**
Composite Index				-11	-3				3				15	14
Production	17	39	45	-28	-17	33	28	38	-4	55	23	21	34	29
Volume of shipments	18	36	46	-28	-14	31	27	40	-8	56	21	20	36	30
Volume of new orders	25	39	36	-11	0	39	28	32	6	44	32	21	23	22
Backlog of orders	17	47	34	-18	-6	28	38	31	-3	28	49	19	9	8
Number of employees	12	69	18	-5	2	34	36	27	7	30	50	17	14	14
Average employee workweek	16	60	24	-8	-2	22	55	20	2	25	60	14	11	10
Prices received for finished product	11	77	10	1	4	45	36	18	27	35	50	11	24	22
Prices paid for raw materials	22	68	9	12	21	56	25	17	40	47	40	10	36	37
Capital expenditures						35	42	21	15	34	43	21	14	10
New orders for exports	9	65	19	-9	-6	15	59	18	-3	17	59	16	1	1
Supplier delivery time	3	90	5	-2	-2	14	71	12	1	11	79	5	6	6
Inventories:														
Materials	23	48	29	-6	-1	33	35	30	3	23	49	26	-3	0
Finished goods	24	49	25	-1	1	28	45	24	4	20	50	26	-6	-6

*Percentage may not add to 100 due to rounding

^Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

**Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12.

Note: The December survey included 96 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Composite Index vs. a Month Ago

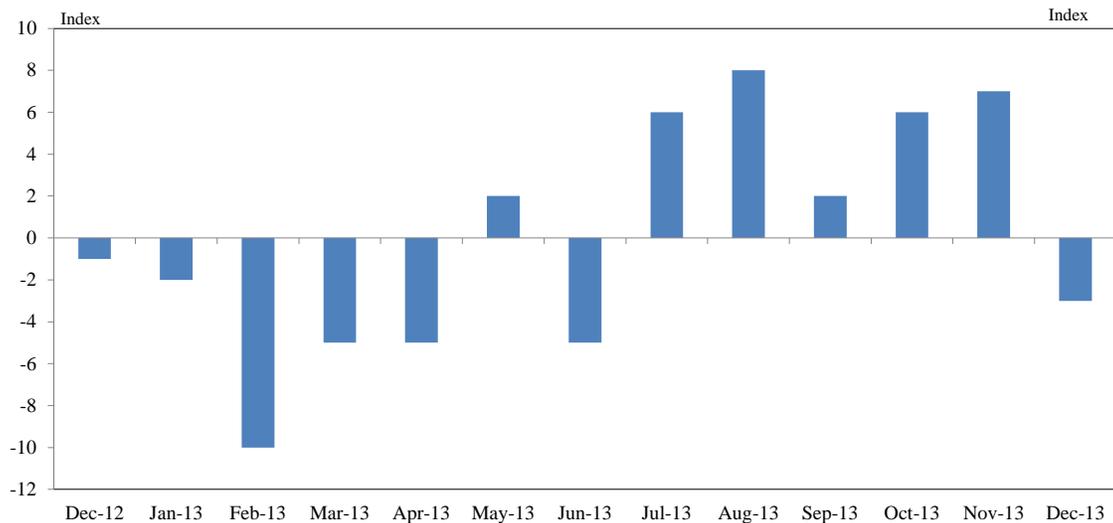


Table2
Historical Manufacturing Survey Indexes

	Dec'12	Jan'13	Feb'13	Mar'13	Apr'13	May'13	Jun'13	Jul'13	Aug'13	Sep'13	Oct'13	Nov'13	Dec'13
Versus a Month Ago (seasonally adjusted)													
Composite Index	-1	-2	-10	-5	-5	2	-5	6	8	2	6	7	-3
Production	-5	-3	-11	-1	1	5	-17	21	21	4	14	11	-17
Volume of shipments	-4	-3	-12	0	7	8	-16	19	15	6	14	3	-14
Volume of new orders	-5	-2	-25	0	0	6	-10	5	15	8	3	15	0
Backlog of orders	-16	-6	-18	-16	-8	-8	-4	-7	0	-2	-2	14	-6
Number of employees	-1	-8	2	-15	-3	-7	-1	-2	4	0	-2	6	2
Average employee workweek	-7	-8	-14	-8	-7	-8	-13	-6	8	-4	2	5	-2
Prices received for finished product	7	7	5	-1	-1	-3	3	0	5	4	10	9	4
Prices paid for raw materials	33	23	25	19	7	9	14	16	22	15	26	17	21
Capital expenditures	n/a												
New orders for exports	-2	-8	-1	-7	-8	-6	-5	2	4	-6	0	-4	-6
Supplier delivery time	3	4	-6	-5	-4	5	2	1	1	1	5	-2	-2
Inventories: Materials	1	-4	-8	-2	-17	0	4	4	0	0	12	4	-1
Inventories: Finished goods	0	-10	-6	0	-4	-2	6	1	4	1	10	-2	1
Versus a Year Ago (not seasonally adjusted)													
Composite Index	7	1	-4	-1	-6	0	3	2	11	10	7	9	3
Production	-3	-9	-7	-8	-14	0	7	7	10	15	8	14	-4
Volume of shipments	5	-4	-5	-5	-10	5	6	9	13	19	8	17	-8
Volume of new orders	2	-7	-14	-6	-9	-2	5	-3	18	16	12	21	6
Backlog of orders	-7	-12	-15	-11	-16	-15	-10	-21	-1	5	2	6	-3
Number of employees	13	14	12	8	-3	-3	5	5	14	5	4	4	7
Average employee workweek	-8	-11	-17	-1	-9	-13	-3	0	6	2	-7	4	2
Prices received for finished product	35	31	29	36	28	26	30	40	39	40	32	32	27
Prices paid for raw materials	56	50	60	59	55	50	50	42	46	38	48	39	40
Capital expenditures	20	-3	8	19	7	11	16	11	15	16	7	15	15
New orders for exports	-4	-11	-4	-3	-12	-7	-1	-1	3	-5	-3	3	-3
Supplier delivery time	9	-1	0	7	4	12	6	3	5	5	8	5	1
Inventories: Materials	14	6	-9	-6	-11	-7	-6	-2	9	7	3	0	3
Inventories: Finished goods	17	0	-3	2	-10	-2	-1	4	13	13	9	-2	4
Expected in Six Months (seasonally adjusted)													
Composite Index	7	7	4	14	4	11	12	7	9	18	8	12	14
Production	16	15	12	26	8	16	24	17	17	35	19	21	29
Volume of shipments	14	14	14	26	10	21	26	12	15	31	15	27	30
Volume of new orders	13	19	15	30	9	18	26	20	11	20	14	16	22
Backlog of orders	3	2	5	16	3	9	14	0	6	14	8	7	8
Number of employees	1	3	2	12	8	8	7	7	9	14	3	20	14
Average employee workweek	-5	3	-3	9	-7	1	1	2	1	3	-3	11	10
Prices received for finished product	29	26	26	22	24	23	21	24	27	26	24	18	22
Prices paid for raw materials	63	47	51	38	38	43	46	36	45	36	45	31	37
Capital expenditures	7	3	18	21	11	19	16	12	13	17	17	16	10
New orders for exports	-2	0	1	11	5	3	13	-1	9	8	5	9	1
Supplier delivery time	5	-1	1	3	0	13	4	7	7	17	4	2	6
Inventories: Materials	-3	-3	-9	-2	-7	1	-2	-13	0	3	2	2	0
Inventories: Finished goods	-2	-2	-13	-6	-10	0	3	-9	4	4	-3	-3	-6