

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING ACTIVITY EXPANDED AT A MODERATE PACE *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 continued to expand at a moderate pace in December, and producers' expectations for future activity remained at solid levels.

"This month's results are similar to what we've seen most of the year, said Wilkerson. The main change in December, which we started to see in November, is that input price pressures have come down."

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 continued to expand at a moderate pace in December, and producers' expectations for future activity remained at solid levels. Most price indexes grew at a slower pace, especially materials prices.

The month-over-month composite index was 8 in December, up slightly from 7 in November and 4 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 slight increase in activity was mostly attributed to durable goods producers, particularly for electronics, aircraft, and machinery products, while nondurable goods production remained sluggish. Most other month-over-month indexes were also slightly higher than last month. The production and employment indexes were unchanged, but the shipments, new orders, and order backlog indexes increased markedly. However, the new orders for exports index fell from 8 to 0. The finished goods inventory index rose for the second straight month, while the raw materials inventory index eased somewhat.

Year-over-year factory indexes were mixed. The composite year-over-year index edged up from 9 to 11, and the shipments, new orders, and new orders for exports indexes also increased. The employment index jumped from 10 to 18, its highest level in nearly two years. In contrast, the production index eased from 15 to 11, and the order backlog and capital expenditures indexes also decreased. Both inventory indexes increased after two months of decline.

Future factory indexes were mostly stable at solid levels. The future composite index was unchanged at 22, while the future shipments, new orders, and employment indexes increased further. The future capital spending index jumped from 15 to 23, its highest level in five months. In contrast, the future production index eased from 34 to 30, and the future order backlog index also inched lower. The future finished goods inventory index rose from 9 to 19, while the future raw materials inventory index edged down.

Most price indexes slowed in December. The month-over-month raw materials price index decreased from 12 to 5, and the finished goods price index fell to 0. The year-over-year raw materials price index eased slightly, while the finished goods price index was basically unchanged. The future raw materials price index moderated from 33 to 25, while the future finished goods price index ticked up somewhat.

SELECTED COMMENTS

“Rumored production cuts so far have not impacted our order backlog. We are still operating at full capacity while striving hard to expand capacity and hire more production personnel.”

“The price of crude oil is a large factor that will impact selling prices for some of our products. If it remains low, we will see prices for some products drop significantly as demand drops.”

“Looks like we will finish the year stronger than anticipated. We hope it carries through to the next year.”

“The prices we charge for our products can’t keep pace with the non-stop growth of the costs incurred for compliance with Federal agencies. Federal regulatory burden continues to sap our enthusiasm, risk taking, and meaningful job growth and pay raises.”

“Demand for construction materials continues to improve. Capacity expansion is limited by federal regulations.”

“We expect raw material prices to primarily be determined by demand and we are concerned demand could be lower. Parcel shipping companies have already announced healthy increases for 2015 even with declining energy costs. We expect our labor costs to continue to increase at about 3% annually.”

“Overbuilding of capacity will restrain price increases. Higher input prices will result in restricted margins unless offset by cost savings and efficiency improvements.”

“There is more general optimism about the economy, although the overall economy is still not great. Our industrial markets are OK, but demand from oilfield customers is dropping rapidly.”

Table 1
Summary of Tenth District Manufacturing Conditions, December 2014

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				0	8				11				22	22
Production	23	46	30	-7	9	40	31	29	11	51	31	16	34	30
Volume of shipments	25	45	29	-3	15	44	29	25	19	55	29	14	41	36
Volume of new orders	25	48	25	0	12	36	37	25	11	43	38	18	25	26
Backlog of orders	20	53	26	-7	7	29	46	23	5	35	47	16	19	17
Number of employees	15	73	12	3	9	40	38	22	18	43	44	13	30	32
Average employee workweek	13	70	16	-3	3	23	58	19	4	21	63	16	4	1
Prices received for finished product	7	85	8	-1	0	47	37	13	34	37	54	7	31	25
Prices paid for raw materials	14	74	11	3	5	54	31	13	41	43	46	8	35	25
Capital expenditures						31	46	19	12	34	49	10	24	23
New orders for exports	5	71	9	-3	0	19	59	10	9	14	66	7	8	9
Supplier delivery time	9	82	4	4	4	15	73	11	4	15	77	4	11	9
Inventories:														
Materials	20	62	19	1	7	32	47	21	11	25	59	15	10	12
Finished goods	21	63	15	5	7	25	52	22	3	31	51	13	18	19

*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 91 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Composite Index vs. a Month Ago

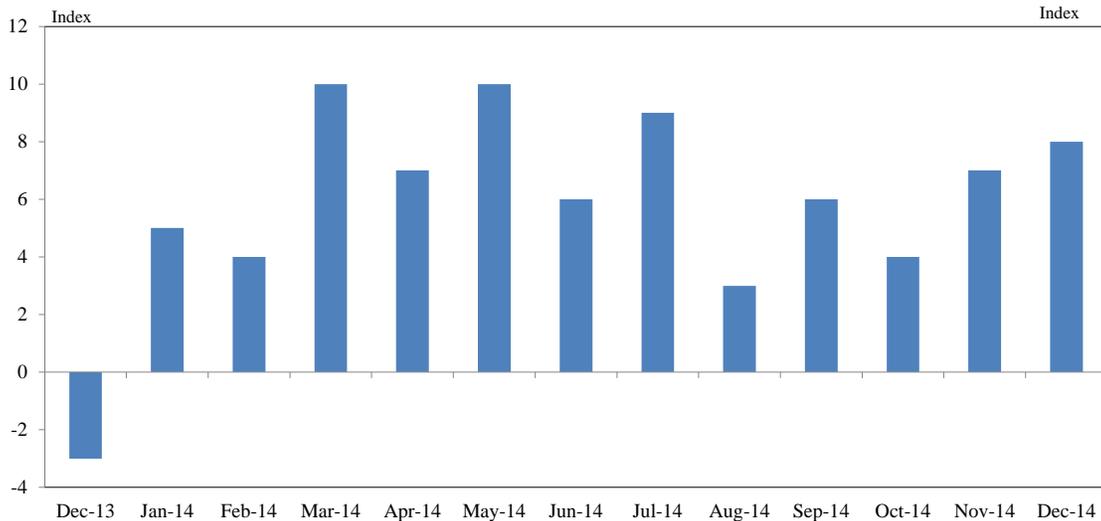


Table2
Historical Manufacturing Survey Indexes

	Dec'13	Jan'14	Feb'14	Mar'14	Apr'14	May'14	Jun'14	Jul'14	Aug'14	Sept'14	Oct'14	Nov'14	Dec'14
Versus a Month Ago (seasonally adjusted)													
Composite Index	-3	5	4	10	7	10	6	9	3	6	4	7	8
Production	-13	-8	3	22	12	14	2	11	4	12	3	9	9
Volume of shipments	-10	3	10	16	14	5	2	14	2	14	0	7	15
Volume of new orders	1	5	5	13	9	11	8	12	6	5	2	1	12
Backlog of orders	-5	-1	-4	-1	4	0	9	-6	-5	-6	-8	4	7
Number of employees	0	11	3	0	3	10	1	8	-4	7	6	9	9
Average employee workweek	-2	-6	1	3	6	14	7	-3	-1	2	-3	1	3
Prices received for finished product	2	8	7	10	2	14	2	7	6	2	0	6	0
Prices paid for raw materials	15	19	16	16	21	28	25	19	20	20	17	12	5
Capital expenditures	n/a	n/a	n/a	n/a									
New orders for exports	-6	4	-1	6	0	-3	-11	-6	-7	-1	-9	8	0
Supplier delivery time	-2	9	0	5	11	5	10	5	4	8	4	7	4
Inventories: Materials	-1	6	10	8	-1	11	8	9	5	0	4	9	7
Inventories: Finished goods	1	3	3	2	2	4	-4	-3	9	3	-5	4	7
Versus a Year Ago (not seasonally adjusted)													
Composite Index	3	8	8	12	14	15	15	13	13	15	17	9	11
Production	-4	8	10	15	22	28	23	24	8	14	22	15	11
Volume of shipments	-8	11	13	11	18	27	23	27	10	16	22	9	19
Volume of new orders	6	8	7	24	19	15	21	17	13	15	24	8	11
Backlog of orders	-3	-2	0	4	20	8	13	10	3	12	6	10	5
Number of employees	7	7	7	7	7	14	12	13	11	12	16	10	18
Average employee workweek	2	-8	2	0	6	4	12	5	-4	-6	5	4	4
Prices received for finished product	27	36	36	39	33	37	30	37	35	34	34	35	34
Prices paid for raw materials	40	48	37	57	59	65	54	55	55	45	44	46	41
Capital expenditures	15	19	18	20	14	18	19	10	14	17	23	18	12
New orders for exports	-3	3	-1	6	4	3	-2	-3	-5	0	-5	5	9
Supplier delivery time	1	8	4	5	11	11	13	11	15	12	11	6	4
Inventories: Materials	3	10	10	7	12	9	7	1	15	22	11	5	11
Inventories: Finished goods	4	8	7	6	10	-1	7	0	13	8	7	0	3
Expected in Six Months (seasonally adjusted)													
Composite Index	15	26	11	11	21	13	12	15	17	17	17	22	22
Production	30	45	24	28	38	18	17	23	25	34	23	34	30
Volume of shipments	32	47	24	25	37	24	20	28	20	36	28	32	36
Volume of new orders	24	35	23	30	33	22	14	24	25	26	26	24	26
Backlog of orders	8	22	15	9	20	9	9	11	15	18	14	19	17
Number of employees	15	29	6	2	22	16	14	23	15	13	16	31	32
Average employee workweek	8	9	-1	5	12	10	4	13	12	4	-3	13	1
Prices received for finished product	18	30	25	21	31	32	28	25	21	26	20	23	25
Prices paid for raw materials	27	47	35	38	46	53	49	46	43	39	38	33	25
Capital expenditures	12	26	24	9	21	19	23	25	16	20	21	15	23
New orders for exports	2	13	5	4	7	4	6	6	9	0	8	9	9
Supplier delivery time	5	10	2	2	11	10	10	6	12	11	7	7	9
Inventories: Materials	-1	9	-1	-8	1	1	2	-1	7	2	13	14	12
Inventories: Finished goods	-5	-1	6	-5	0	2	3	-2	8	6	12	9	19