

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

1 Memorial Drive • Kansas City, MO 64198 • Phone: 816.881.2683

FOR RELEASE Friday, November 21, 2014
EMBARGOED FOR 10 A.M. CENTRAL TIME
CONTACT: Pam Campbell
405-270-8617
Pam.Campbell@kc.frb.org

GROWTH IN TENTH DISTRICT MANUFACTURING ACTIVITY EXPANDED FURTHER *Federal Reserve Bank of Kansas City Releases November Manufacturing Survey*

KANSAS CITY, Mo. The Federal Reserve Bank of Kansas City released the November 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 expanded at a slightly faster pace in November, and producers' expectations for future activity increased further.

“Regional factory growth improved somewhat in November, although many contacts reported that the cost to retain or hire quality employees is rising, said Wilkerson. The majority of firms expected activity to improve considerably in the next six months.”

A summary of the November 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.

###

TENTH DISTRICT MANUFACTURING SUMMARY

Tenth District manufacturing activity expanded at a slightly faster pace in November, and producers' expectations for future activity increased further. Firms reported rising difficulties in attracting and retaining certain key workers, and several contacts cited increased labor costs. Price indexes were mixed with little change overall.

The month-over-month composite index was 7 in November, up from 4 in October and 6 in September (Tables 1 & 2, Chart). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Producers of aircraft parts and equipment reported the strongest growth, while contacts at plastics and chemical plants reported a decline in activity. Most other month-over-month indexes were also higher than last month. The production index rose from 3 to 9, and the shipments, employment, and new orders for exports indexes also increased. The order backlog index moved into positive territory for the first time in four months, while the new orders index was basically unchanged. The finished goods inventory index jumped from -5 to 4, and the raw materials inventory index increased for the second straight month.

Most year-over-year factory indexes moderated somewhat. The composite year-over-year index fell from 17 to 9, and the production, shipments, and new orders indexes also moved lower. The employment index decreased from 16 to 10, and the capital expenditures index edged down after rising last month. In contrast, the order backlog index improved from 6 to 10, and the new orders for exports index moved into positive territory. Both inventory indexes fell further.

Future factory indexes strengthened further in November. The future composite index moved higher from 17 to 22, and the future production, shipments, and order backlog indexes also rose. The future employment index jumped from 16 to 31, its highest level in almost nine years. In contrast, the future new orders index eased from 26 to 24, and the future capital expenditures index also edged lower. The future finished goods inventory index decreased from 12 to 9, while the future raw materials inventory index was basically unchanged.

Price indexes were mixed with little change overall. The month-over-month raw materials price index decreased from 17 to 12, while the finished goods price index increased slightly. The year-over-year raw materials price index inched higher from 44 to 46, while the finished goods price index was basically unchanged. The future raw materials price index eased from 38 to 33, while the future finished goods price index ticked up somewhat, indicating more firms plan to pass recent cost increases through to customers.

SELECTED COMMENTS

“Skilled workers are very difficult to find. We are losing our skilled employees to larger companies that are offering more money than we can afford.”

“Growth is slow, but right now the pattern looks good for continued growth.”

“We have an aging workforce that needs to be replaced in the next 5-10 years.”

“We are struggling with attracting workers due to the increase in activity from the oil and gas industry. We are also having to reduce part-time hours to avoid further healthcare costs. The Affordable Health Care Act is the single greatest financial impact on our business and labor costs.”

“In our community (similar to those around us), there is extreme shortage of available production level workforce. There are many people with no desire to work and the quality of new hires is below par with poor working habits and generally low skill levels.”

“Production continues at a record pace. Finding and hiring additional production personnel continues to be our number one challenge.”

“The early onset of extremely cold weather will decrease our winter sales. We plan to build inventory in anticipation of a strong spring demand. Our plans will change negatively if ACA imposes a costly restraint against our present company-funded health program.”

“The need to manage labor costs is unprecedented, caused by factors such as ACA and unfavorable regulatory environment for unions, as well as increasing overall costs of employees. The elimination of unskilled positions is mandatory for survival.”

Table 1
Summary of Tenth District Manufacturing Conditions, November 2014

Plant Level Indicators	November vs. October (percent)*					November 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				3	7				9				21	22
Production	27	48	25	2	9	45	24	30	15	50	32	15	35	34
Volume of shipments	27	42	28	-1	7	38	29	30	9	48	34	13	34	32
Volume of new orders	24	45	30	-7	1	38	30	30	8	39	42	17	22	24
Backlog of orders	22	51	25	-3	4	31	44	22	10	31	53	12	19	19
Number of employees	21	64	14	7	9	39	30	29	10	37	49	10	28	31
Average employee workweek	13	71	14	-1	1	24	54	20	4	21	67	10	10	13
Prices received for finished product	8	87	5	3	6	49	36	13	35	30	61	5	25	23
Prices paid for raw materials	14	76	8	7	12	58	27	12	46	42	48	7	35	33
Capital expenditures						38	39	20	18	29	55	11	17	15
New orders for exports	13	69	9	5	8	17	59	12	5	15	69	7	9	9
Supplier delivery time	9	87	2	7	7	13	76	8	6	10	84	3	7	7
Inventories:														
Materials	24	58	17	7	9	31	40	27	5	28	58	12	15	14
Finished goods	20	61	14	6	4	25	47	25	0	21	62	12	9	9

*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 November survey included 105 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Composite Index vs. a Month Ago

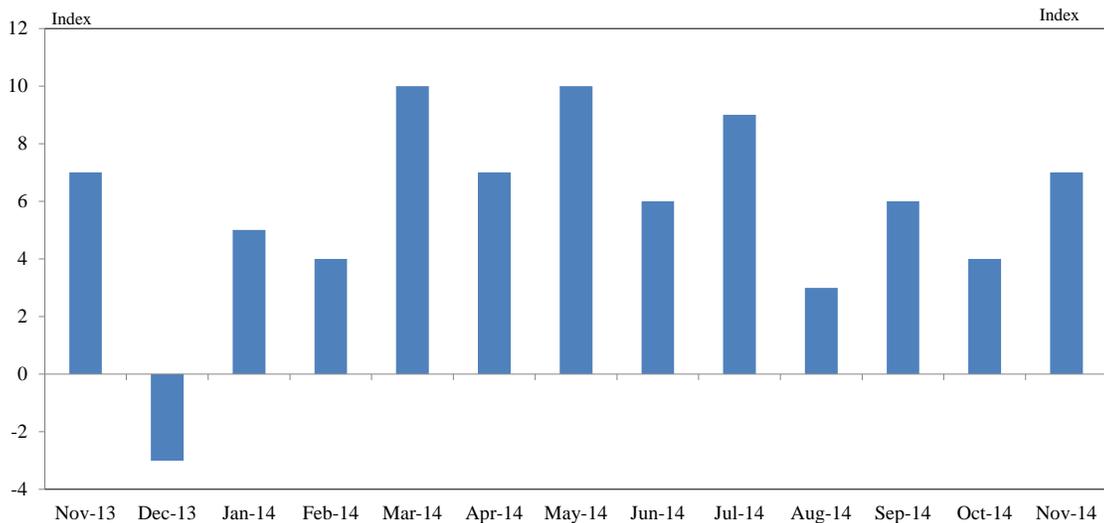


Table2
Historical Manufacturing Survey Indexes

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