

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING ACTIVITY DECLINED AT A SIMILAR PACE *Federal Reserve Bank of Kansas City Releases September Manufacturing Survey*

KANSAS CITY, Mo. The Federal Reserve Bank of Kansas City released the September 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 declined at a similar pace as in previous months, while expectations for future activity dropped considerably.

“Survey respondents continued to blame a strong dollar and weak energy activity for declining factory activity”, said Wilkerson. “This month their future outlook also weakened after holding steady in recent months.”

A summary of the September 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 declined at a similar pace as in previous months, while expectations for future activity dropped considerably. Producers continued to cite weak oil and gas activity along with a strong dollar as key reasons for the sluggish activity. Most price indexes fell from the previous survey.

The month-over-month composite index was -8 in September, largely unchanged from -9 in August and -7 in July (Tables 1 & 2, Chart). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Both durable and nondurable goods production continued to decline, although some nondurable production such as plastics, chemicals, and food improved somewhat. Durable goods production remained weak, particularly for metals and machinery products. Production indexes continued to fall in nearly all District states. The majority of other month-over-month indexes edged slightly higher but still remained negative. The production index jumped from -16 to 1, and the new orders, shipments and order backlog indexes also improved somewhat but stayed negative. The employment index inched up from -10 to -7, and the new orders for exports index also moved slightly higher. The raw materials inventory index fell from -12 to -20, while the finished goods inventory index increased modestly.

Year-over-year factory indexes were mixed but generally weaker than last month. The composite year-over-year index fell from -9 to -13, and the new orders and employment indexes also declined further. The capital expenditures index dropped from 8 to -3, its lowest level since January 2013. The production and shipments indexes both improved modestly but remained in negative territory. The raw materials inventory index decreased from -5 to -10, and the finished goods inventory index also decreased.

Future factory indexes declined markedly in September. The future composite index dropped from 0 to -12, its lowest reading since 2009, and the future production, shipments, and new orders indexes also posted six-year lows. The future order backlog index fell further from -13 to -20, and the future employment index moved into negative territory for the first time in five months. The future capital expenditures index was largely unchanged at -1, while the future new orders for exports index eased somewhat. Both future inventory indexes declined further.

Price indexes either fell or remained negative in September. The month-over-month finished goods price index edged slightly higher from -10 to -7, while the raw materials price index was basically unchanged. The year-over-year raw materials price index edged down from 14 to 10, and the finished goods price index also fell. The future raw materials and finished goods price indexes both decreased further, to their lowest levels in nearly six years, with the future finished goods index now in negative territory.

SELECTED COMMENTS

“Our customers associated with oil drilling are expecting the lower oil prices to continue in 2016 and into 2017 especially if the sanctions on Iranian oil sales are lifted.”

“Labor is getting tighter and tighter. Qualified and skilled labor is getting difficult for us to find.”

“It feels like someone just flipped the switch to "off" without any concrete reasoning.”

“New orders are obviously needed to sustain the momentum our industry has enjoyed for many years. More capital spending by the oil and gas producers remains the key to reversing the current trend.”

“Sales to Canada of US production have become difficult due to strong US dollar vs Canadian dollar. We import cement from China to sell in the US, and the strong dollar has been very favorable for that transaction.”

“Grain prices are down significantly from previous years and cattle prices are up significantly from previous years. Market volatility has further put farmers in a "wait and see" mode.”

“In the transportation industry that we serve, some of the funding of infrastructure comes from state revenue and many oil and gas producing states have taken a big hit in revenue, while many other states are just not growing and also have reduced spending on infrastructure.”

“We are seeing more skilled employees available for hire due to the layoffs of companies in the oil business.”

“Lower fuel prices have lowered our cost, but also slowed some markets that rely on the oil industry.”

“The strength of the US dollar has hurt. Our business is down more than 50% from two years ago.”

“We have seen increased weakness in international business.”

Table 1
Summary of Tenth District Manufacturing Conditions, September 2015

Plant Level Indicators	September vs. August (percent)*					September 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				-8	-8				-13				-9	-12
Production	25	47	27	-2	1	30	20	46	-16	25	39	32	-7	-14
Volume of shipments	24	45	30	-6	-4	30	17	51	-20	25	38	34	-9	-17
Volume of new orders	21	47	31	-10	-8	24	28	45	-21	25	41	31	-6	-7
Backlog of orders	17	49	30	-13	-12	15	39	41	-26	17	44	34	-17	-20
Number of employees	14	65	21	-7	-7	27	29	41	-14	21	47	29	-8	-9
Average employee workweek	12	63	23	-11	-12	13	43	39	-26	10	64	23	-13	-15
Prices received for finished product	6	82	12	-6	-7	33	35	29	4	16	61	20	-4	-5
Prices paid for raw materials	7	79	14	-7	-7	38	31	28	10	23	55	18	5	6
Capital expenditures						27	39	30	-3	17	61	17	0	-1
New orders for exports	9	69	12	-3	-3	8	63	20	-12	7	71	13	-6	-7
Supplier delivery time	4	86	7	-3	-6	11	69	14	-3	5	81	8	-3	-3
Inventories: Materials	12	55	32	-20	-20	25	36	35	-10	13	46	35	-22	-25
Inventories: Finished goods	19	55	22	-3	-3	24	39	30	-6	17	51	28	-11	-15

*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 September survey included 99 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Composite Index vs. a Month Ago

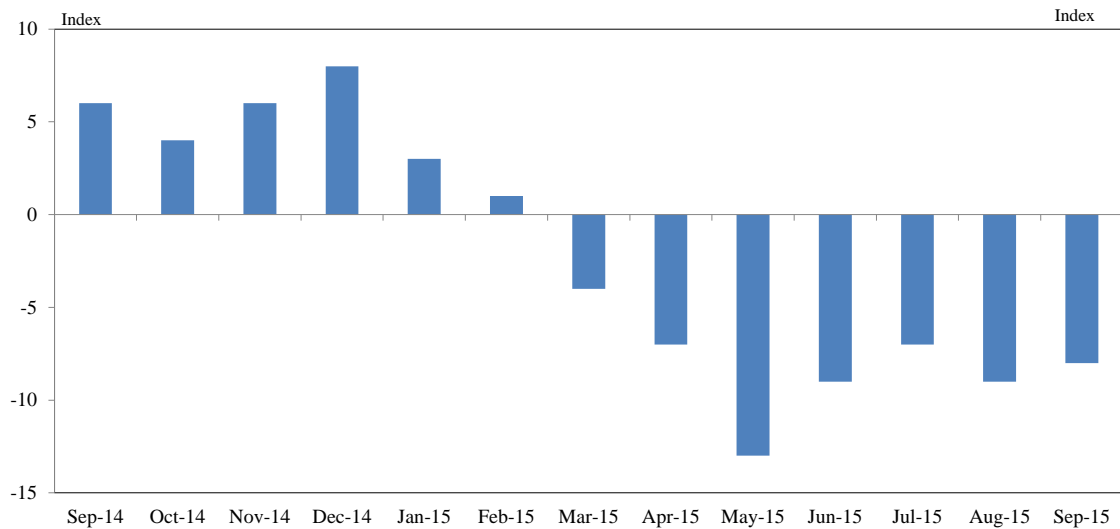


Table2
Historical Manufacturing Survey Indexes

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