

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING ACTIVITY DECLINED MORE SHARPLY *Federal Reserve Bank of Kansas City Releases May Manufacturing Survey*

KANSAS CITY, Mo. The Federal Reserve Bank of Kansas City released the May 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 more sharply in May and producers' expectations also fell, with both reaching their lowest levels since mid-2009.

"Factories in our region saw an even sharper decline in May than in March or April, as exports fell further and energy-related producers saw another drop in orders," said Wilkerson. "However, firms' overall still plan a modest increase in employment over the next six to twelve months."

A summary of the May 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 more sharply in May than in previous months and producers' expectations also fell, with both reaching their lowest levels since mid-2009. However, most price indexes increased slightly, reversing a recent trend of decline. In a special question about hiring plans, the majority of firms indicated they were planning to either leave employment levels unchanged or increase them slightly over the next twelve months.

The month-over-month composite index was -13 in May, down from -7 in April and -4 in March (Tables 1 & 2, Chart). The last time the composite index was lower was in April 2009. The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The overall slower growth was mostly attributable to declines in durable goods manufacturing, including a continued decline in aircraft production and further weakness in metals and machinery. In addition, several nondurable goods plants also reported sluggish activity, particularly for plastics and food production. Production fell most sharply in energy-producing states like Oklahoma and New Mexico, but it was also down in most other District states. The majority of other month-over-month indexes also decreased from the previous month. The production index contracted from -2 to -13, and the shipments and new orders indexes also fell. The order backlog, employment, and new orders for exports indexes edged higher but still remained well below zero. The finished goods inventory index increased from -1 to 0, while the raw materials inventory index dropped into negative territory.

Year-over-year factory indexes were mixed but remained negative overall. The composite year-over-year index inched lower from -3 to -5, and the production, shipments, new orders, and order backlog indexes also became more negative. The employment index rose from -8 to 0, while the capital expenditures and new orders for exports indexes were basically unchanged. The finished goods inventory index increased from 4 to 6, but the raw materials inventory index eased slightly.

Most future factory indexes fell in May, with the notable exception of employment. The future composite index decreased from 6 to 0, and the future production, shipments, and capital expenditures indexes also edged lower. The future new orders index dropped from 21 to 2, its lowest level since May 2009, and the future order backlog index moved into negative territory. In contrast, the future employment index rebounded from -2 to 7, and the future new orders for exports indexes rose slightly from -6 to -2. The future finished goods inventory index eased from -2 to -5, while the future raw materials inventory index increased somewhat.

Most price indexes rose modestly in May, although month-over-month indexes were still negative. The month-over-month finished goods price index increased from -10 to -4, while the raw materials price index was basically unchanged. The year-over-year finished goods price index edged up from 12 to 14, while the raw materials price index was stable. The future raw materials price index rose from 8 to 15, and the future finished goods price index also increased moderately.

SELECTED COMMENTS

“We had a good first quarter but the brakes have been applied since the start of May. Looks like our business will be down compared to last May.”

“It is becoming increasingly difficult to find qualified job candidates who are not carrying some form of personal baggage / problem.”

“We are continuing to operate at full capacity but the volume of new orders has slowed significantly with the ongoing cutbacks in E&P expenditures.”

“We laid off 8% of the workforce over the last two months. The low price of oil combined with dropping steel prices has caused adverse volatility in new orders and margins. The strong dollar is beginning to incent unabated dumping of product at prices that challenge our raw material cost from domestic sources. The cost and complexity of government regulation continues to steer even more resources and attention away from productive economic activities.”

“The drop in oil prices has impacted our business severely for the worse.”

“We see no end to the sudden slowdown in business. Our customers also see no turnaround. We have gone to a four-day workweek and still struggle to keep our workers busy.”

Table 1
Summary of Tenth District Manufacturing Conditions, May 2015

Plant Level Indicators	May vs. April (percent)*					May vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No		Diff	SA	Increase	No		Diff	Increase	No		Diff	SA
		Change	Decrease	Index^	Index**^		Change	Decrease	Index^		Change	Decrease	Index^	Index**^
Composite Index				-8	-13				-5				0	0
Production	26	43	30	-3	-13	30	30	40	-10	31	43	26	5	6
Volume of shipments	25	45	28	-2	-9	28	29	41	-14	34	40	23	11	12
Volume of new orders	20	49	31	-11	-19	28	33	39	-11	28	48	24	3	2
Backlog of orders	17	47	34	-17	-21	20	44	34	-15	21	52	25	-5	-6
Number of employees	9	69	22	-13	-17	30	39	30	0	25	57	17	8	7
Average employee workweek	10	69	20	-9	-14	14	57	29	-15	11	66	22	-10	-13
Prices received for finished product	10	74	16	-6	-4	40	33	26	14	26	62	11	15	15
Prices paid for raw materials	14	64	18	-5	-6	38	26	32	6	28	57	9	18	19
Capital expenditures						34	37	28	7	25	51	24	1	0
New orders for exports	7	68	15	-8	-9	8	60	22	-14	11	64	13	-1	-2
Supplier delivery time	0	92	6	-6	-7	8	79	10	-2	7	79	8	-1	-1
Inventories: Materials	16	61	23	-7	-11	28	46	26	1	15	57	28	-13	-12
Inventories: Finished goods	20	57	17	2	0	24	53	18	6	15	57	22	-7	-5

*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 May survey included 87 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Composite Index vs. a Month Ago

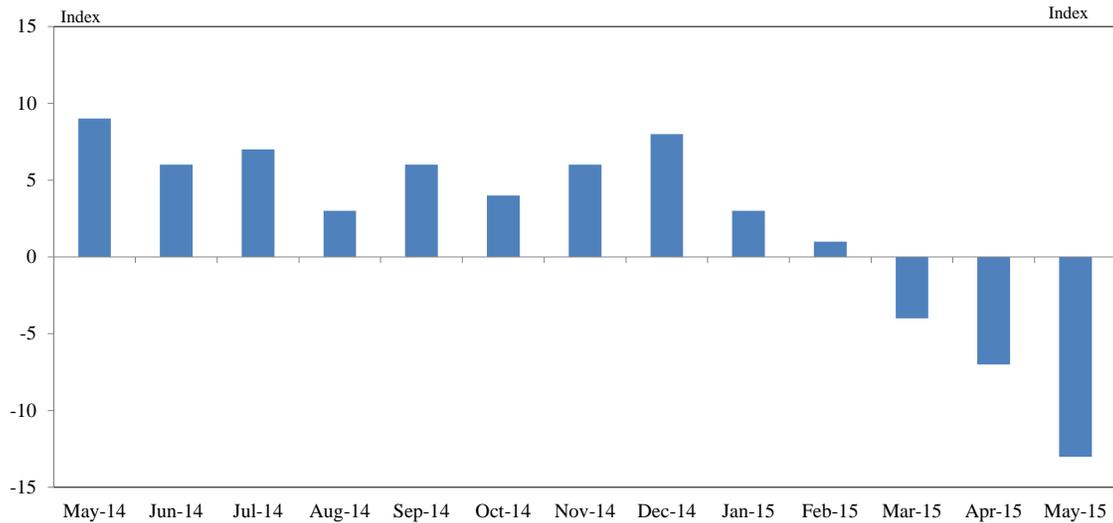


Table2
Historical Manufacturing Survey Indexes

	May'14	Jun'14	Jul'14	Aug'14	Sept'14	Oct'14	Nov'14	Dec'14	Jan'15	Feb'15	Mar'15	Apr'15	May'15
Versus a Month Ago (seasonally adjusted)													
Composite Index	9	6	7	3	6	4	6	8	3	1	-4	-7	-13
Production	12	4	8	4	11	3	9	7	-2	5	-2	-2	-13
Volume of shipments	6	5	12	4	13	2	7	8	-5	7	0	-7	-9
Volume of new orders	10	10	10	5	5	3	0	14	-8	-10	-20	-12	-19
Backlog of orders	0	5	-5	-4	-4	-6	1	5	-20	-16	-21	-25	-21
Number of employees	8	2	7	-4	7	6	8	8	0	-4	-2	-18	-17
Average employee workweek	12	6	-3	-1	3	-2	1	2	-10	1	-17	-10	-14
Prices received for finished product	13	2	7	6	3	1	5	1	-3	-3	-6	-10	-4
Prices paid for raw materials	25	23	19	19	19	15	12	7	8	-6	-12	-7	-6
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	-3	-9	-3	-6	-1	-9	8	0	-7	-13	-9	-12	-9
Supplier delivery time	5	9	5	4	7	4	7	5	10	12	3	-6	-7
Inventories: Materials	9	7	8	5	2	5	8	7	12	3	-1	5	-11
Inventories: Finished goods	3	-1	-2	7	2	-4	4	6	8	3	-2	-1	0
Versus a Year Ago (not seasonally adjusted)													
Composite Index	15	15	13	13	15	17	9	11	9	9	-2	-3	-5
Production	28	23	24	8	14	22	15	11	-1	10	-9	-8	-10
Volume of shipments	27	23	27	10	16	22	9	19	4	5	-8	-6	-14
Volume of new orders	15	21	17	13	15	24	8	11	5	3	-6	-6	-11
Backlog of orders	8	13	10	3	12	6	10	5	-6	-2	-13	-8	-15
Number of employees	14	12	13	11	12	16	10	18	11	3	-2	-8	0
Average employee workweek	4	12	5	-4	-6	5	4	4	-7	1	-19	-17	-15
Prices received for finished product	37	30	37	35	34	34	35	34	19	16	15	12	14
Prices paid for raw materials	65	54	55	55	45	44	46	41	39	29	22	7	6
Capital expenditures	18	19	10	14	17	23	18	12	7	9	3	8	7
New orders for exports	3	-2	-3	-5	0	-5	5	9	-8	-9	-15	-14	-14
Supplier delivery time	11	13	11	15	12	11	6	4	16	15	3	1	-2
Inventories: Materials	9	7	1	15	22	11	5	11	13	13	6	6	1
Inventories: Finished goods	-1	7	0	13	8	7	0	3	18	17	9	4	6
Expected in Six Months (seasonally adjusted)													
Composite Index	14	13	16	17	16	17	21	19	19	11	4	6	0
Production	21	20	25	26	29	24	35	26	27	26	16	17	6
Volume of shipments	26	23	28	22	32	27	29	33	35	23	20	16	12
Volume of new orders	22	19	24	26	26	26	24	23	24	15	6	21	2
Backlog of orders	10	11	12	15	15	14	18	17	3	5	5	13	-6
Number of employees	17	15	22	16	14	15	28	30	24	14	7	-2	7
Average employee workweek	9	5	11	10	5	1	12	2	7	4	1	-5	-13
Prices received for finished product	31	27	25	21	25	21	24	28	27	6	12	8	15
Prices paid for raw materials	49	45	44	42	39	39	34	36	31	25	24	9	19
Capital expenditures	19	22	23	17	20	21	16	25	16	12	2	10	0
New orders for exports	6	7	6	8	0	8	8	8	-2	-2	4	-6	-2
Supplier delivery time	10	10	6	11	10	7	7	9	12	7	5	8	-1
Inventories: Materials	1	3	1	6	3	10	11	9	7	-7	-13	-14	-12
Inventories: Finished goods	2	3	1	7	5	9	7	18	7	0	-9	-2	-5