

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING ACTIVITY CONTINUED TO DECLINE MODESTLY *Federal Reserve Bank of Kansas City Releases August Manufacturing Survey*

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the August 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 decline modestly.

“Firms reported another slight drop in activity in August but remained moderately optimistic about activity heading forward,” said Wilkerson.

A summary of the August 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 decline modestly. Expectations for future activity remained solid, and the price indexes were mixed. In a special question this month, most firms reported no plans to change employee benefits for next year, but more firms expect decreases in benefits than expect increases.

The month-over-month composite index was -4 in August, up from -6 in July but down from 2 in June (Tables 1 & 2, Chart). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Non-durable goods production continued to grow modestly, while durable goods activity was less negative than last month, particularly for machinery and electronic equipment. Most month-over-month indexes were similar to levels posted the previous month. The production index improved from -15 to -7, and the shipments index also rose somewhat. The new orders and order backlog indexes remained moderately negative, while the employment and new export orders indexes fell slightly. The raw materials inventory index increased from -7 to -1, while the finished goods inventory index fell back into negative territory.

Year-over-year factory indexes improved slightly but remained below zero. The composite year-over-year index inched higher from -15 to -12, and the shipments, new orders, and order backlog indexes also rose slightly. The production, capital spending, and new orders for exports indexes were all unchanged at negative levels. The employment index dropped from -12 to -15 after improving last month. The raw materials inventory index increased from -14 to -10, while the finished goods inventory index fell further.

Most future factory indexes were stable compared to last month's readings, and moderately positive. The future composite index eased from 14 to 11, and the future production, shipments, and new orders indexes also edged lower. In contrast, the future employment index jumped from 6 to 12 and the future capital spending index also rose slightly. The future new orders for exports index was unchanged at 1, while both future inventory indexes fell into negative territory.

Price indexes were mixed in August. The month-over-month finished goods price index rose from -11 to -7, while the raw materials price index inched lower. The year-over-year finished goods price index rose from dropped from 12 to 1, and the raw materials price index decreased sharply to its lowest level in 4 months. The future finished goods price index increased further from 13 to 17, while the future raw materials price index was unchanged.

SELECTED COMMENTS

“We are seeing slow growth in the mid-section of the country. It seems like our customers on the coast are doing better but everyone is still dragging their feet on making any decisions on new products.”

“The biggest concern as we hire new employees is estimating where labor cost will go from here.”

“Benefits will remain the same, but we will have to increase wages to attract quality employees.”

“We are seeing an increase in activity and quotations with some optimism.”

“Energy is still sluggish, the dollar is still strong and basic manufacturers in the US are under attack from foreign dumping, domestic competition and excessive and costly regulation. In response, our investments are focused on improving efficiencies, improving yield, improving quality and reducing headcount.”

“Health insurance is unsustainable. Had to change cost sharing and benefit levels this year just to be able to keep offering it. At some point soon, we won't be able to keep it going.”

“Qualified employees are hard to find; demand for our product continues to expand; supply is very tight.”

“New orders are still scarce but new buying activity did occur in August that we were unsuccessful in booking. That is still a positive sign of new E&P spending.”

Table 1
Summary of Tenth District Manufacturing Conditions, August 2016

Plant Level Indicators	August vs. July (percent)*					August 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				-5	-4				-12				9	11
Production	26	38	36	-11	-7	23	29	46	-22	36	37	24	12	17
Volume of shipments	26	40	33	-7	-4	23	29	45	-21	34	37	26	9	17
Volume of new orders	23	44	31	-7	-7	24	34	38	-14	36	43	18	18	23
Backlog of orders	21	49	27	-5	-4	17	43	35	-18	26	50	18	7	11
Number of employees	17	57	26	-9	-10	27	29	41	-15	32	41	23	9	12
Average employee workweek	18	65	15	3	4	17	49	28	-11	15	63	15	0	0
Prices received for finished product	7	77	16	-9	-7	27	45	26	1	22	64	9	14	17
Prices paid for raw materials	18	70	12	6	7	27	38	31	-4	28	59	11	17	17
Capital expenditures						21	43	34	-13	18	59	17	1	5
New orders for exports	7	70	16	-9	-10	9	62	21	-13	12	69	11	1	1
Supplier delivery time	6	86	4	2	3	10	76	11	-1	10	84	2	7	7
Inventories: Materials	22	55	22	0	-1	23	41	33	-10	19	56	22	-3	-4
Inventories: Finished goods	22	48	24	-2	-2	21	38	35	-14	19	52	24	-5	-8

*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 August survey included 94 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Composite Index vs. a Month Ago

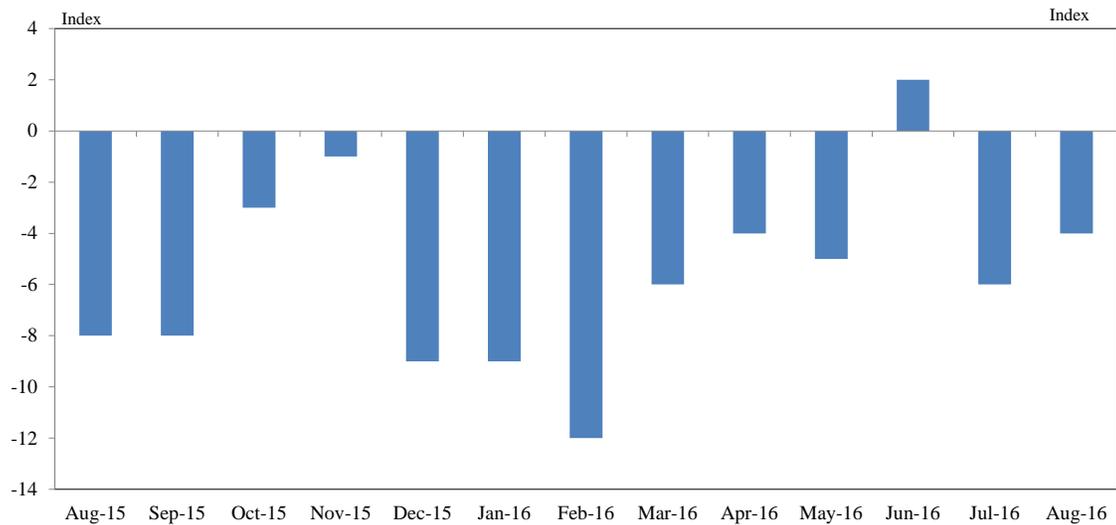


Table2
Historical Manufacturing Survey Indexes

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