

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING ACTIVITY DECLINED MODESTLY

Federal Reserve Bank of Kansas City Releases July Manufacturing Survey

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

“Factories in our region reported a slight pullback in July following modest expansion in June,” said Wilkerson. “However, their expectations for future activity continued to increase.”

A summary of the July 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 modestly after last month's rebound. Expectations for future activity continued to increase, and the price indexes were mixed.

The month-over-month composite index was -6 in July, down from 2 in June and -5 in May (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 producing plants reported a smaller decline in activity, but durable goods production dropped sharply, particularly for metals and electronic equipment. Most month-over-month indexes were lower than in June. The production index dropped from 12 to -15, and the shipments and news orders indexes also fell. The employment index inched down to -5, while the order backlog index remained unchanged. The raw materials inventory index eased further, while the finished goods inventory index increased from -5 to 5.

Year-over-year factory indexes were mixed but remained weak. The composite year-over-year index was flat at -15, while the production, shipments, and new orders indexes edged down slightly. The order backlog index was unchanged, and the employment index inched higher. The capital spending index fell from -3 to -14, reversing the increase reported in June. Both inventory indexes increased modestly but remained negative.

Most future factory indexes increased considerably in July. The future composite index increased from 7 to 14, its highest in over a year. The future production, shipments, new orders, and order backlog indexes also increased markedly. The future capital spending index edged down from 8 to 3, and the employment index also eased somewhat. Both future inventory indexes increased into positive territory for the first time in eighteen months.

Price indexes were mixed in July. The month-over-month finished goods price index fell from -4 to -11, and the raw materials price index inched lower. The year-over-year finished goods price index rose from 8 to 12, while the raw materials price index decreased modestly. The future finished goods price index moved higher from 5 to 13, and the future raw materials price index climbed from 9 to 17.

SELECTED COMMENTS

“June is normally our busiest month of the year but this year it was the lowest since 2009. We are seeing some of the worst demand since 2008/09 recession. Our backlog is down 49% compared to 2014. Ag & energy continue to be down, now starting to see other areas down also.”

“Brexit short term can create anxiety but long term we do not expect lasting negative impact - believe it will normalize and ultimately move forward.”

“This summer has been slower than last year mostly attributed to the heat. We are hoping for a strong ending to the 3rd quarter and a solid 4th quarter.”

“We have seen a softening of demand across all sectors, not only those affected by the energy market. We are just not seeing the strengthening in demand reported by the general media.”

“Seeing some positive movement in the requests for quote and purchase orders. Drilling activity is picking up in our geographical areas also.”

“We are in a very competitive marketplace with non-existent new program opportunities. Only opportunities for new business seem to be for programs to reduce costs for customers and taking business away from competitors. Our customers seem to be very reluctant to spend capital especially for the rest of 2016.”

“Revenue levels are back up to 2014 levels. However profits are off due to workforce issues. We are having difficulty finding capable entry level assembly employees. If national trend to raise minimum wage goes forward a substantial price increase will be required to create any type of profit.”

Table 1
Summary of Tenth District Manufacturing Conditions, July 2016

Plant Level Indicators	July vs. June (percent)*					July vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	No		Diff	SA	Index^	No		Diff	Index^	No		Diff	SA	
	Increase	Change				Increase	Change			Increase	Change			
Composite Index				-4	-6			-15				11	14	
Production	23	43	34	-10	-15	24	29	47	-22	40	40	21	19	25
Volume of shipments	24	40	36	-12	-17	23	26	51	-28	37	37	26	12	18
Volume of new orders	28	37	33	-5	-5	24	27	47	-22	42	42	13	29	30
Backlog of orders	22	48	28	-6	-3	16	38	42	-26	28	57	14	14	16
Number of employees	14	69	17	-3	-5	24	38	36	-12	24	55	20	5	6
Average employee workweek	19	67	14	5	7	16	53	29	-13	22	62	15	7	7
Prices received for finished product	5	77	17	-13	-11	31	47	20	12	20	70	8	12	13
Prices paid for raw materials	16	76	8	8	10	36	34	29	7	26	63	10	15	17
Capital expenditures						22	41	36	-14	19	64	16	2	3
New orders for exports	5	76	12	-7	-7	10	58	23	-13	13	71	9	3	1
Supplier delivery time	6	90	3	2	3	8	78	12	-3	6	86	3	2	4
Inventories: Materials	19	58	22	-3	-7	22	41	36	-14	21	57	20	1	4
Inventories: Finished goods	20	52	17	2	5	22	42	27	-5	19	55	17	1	3

*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 July survey included 86 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Composite Index vs. a Month Ago

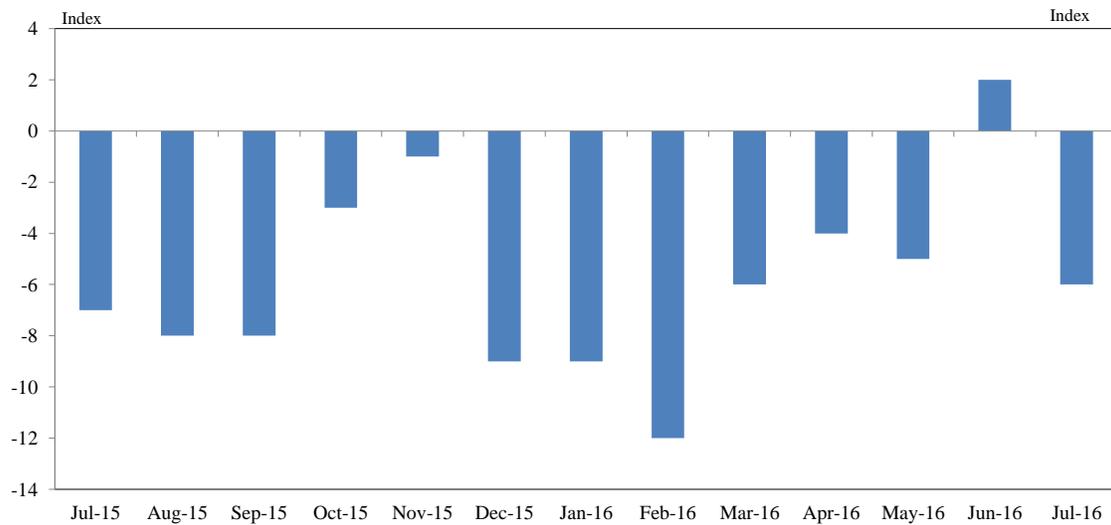


Table2
Historical Manufacturing Survey Indexes

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