

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING ACTIVITY POSTS STRONG GROWTH *Federal Reserve Bank of Kansas City Releases October Manufacturing Survey*

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the October 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 posted strong growth and expectations about future activity improved further.

“Factory activity accelerated further in our region this month, posting its highest composite reading since 2011,” said Wilkerson.

A summary of the October 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 posted strong growth, and expectations for future activity improved further. Raw materials price indexes increased modestly, while indexes for selling prices were mixed.

The month-over-month composite index was 23 in October, the highest since March 2011, up from 17 in September and 16 in August (Tables 1 & 2, Chart 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Factory activity increased strongly at both durable and non-durable goods plants, particularly for food, plastics, computer and electronic products. Month-over-month indexes were mostly higher. The new orders index increased moderately, and the order backlog index increased to its highest reading since March 2011. The employment and new orders for exports indexes increased slightly. However, the shipments index was unchanged, and the production index eased somewhat but remained high. The finished goods inventory index jumped back into positive territory, and the raw materials inventory index also increased moderately.

Most year-over-year factory indexes eased somewhat in October from high readings in September. The production index fell from 56 to 41, and the shipments and capital expenditures indexes were modestly lower. The order backlog and new orders indexes inched down, and the composite and new orders for exports indexes were mostly unchanged. The employment index stayed flat. The raw materials inventory index increased to 30, its highest reading since May 2007, and the finished goods inventory index rose from 2 to 15.

Future factory activity expectations improved for a second consecutive month. The future new orders and employee workweek indexes increased considerably, and the future order backlog, capital expenditures, employment, and production indexes rose moderately. The future composite index increased from 26 to 32, and shipments and new orders for exports improved modestly. In contrast, the supplier delivery time index fell to its lowest reading since January 2017. The future raw materials inventory index inched higher from 19 to 22, and the future finished goods inventory index increased moderately.

Most price indexes increased further in October. The month-over-month finished goods price index was unchanged, and the raw materials price index inched higher. The year-over-year finished goods price index eased from 38 to 33, and the year-over-year raw materials price index increased to its highest since May 2014. The future finished goods price index rose from 29 to 32, and the future raw materials price index edged up to 43.

SELECTED COMMENTS

“The fourth quarter is starting off strong. We hope it continues to the end of the year, but weather will play a big factor in our business.”

“Overall, things are better than last year and earlier, but still not where it needs to be. Energy related markets are still down.”

“Qualified, available and reliable labor (primarily hourly) continues to be the number one issue negatively impacting our growth potential.”

“If tax reform is real and significant we will be adding people, equipment and expanding our facility.”

“We are unable to find the necessary skilled workers we need to meet customer delivery requirements. We will be investing heavily in the next 12 months on automation to fill the gap.”

“We are starting to work with a consultant to redesign the entire set of business processes (financial, production, Human Resources) to make us leaner and thus, more competitive since we have little control over price of materials purchased and our customers continue to push for price concessions.”

Table 1
Summary of Tenth District Manufacturing Conditions, October 2017

Plant Level Indicators	October vs. September (percent)*					October vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	No		Diff		SA	No		Diff		No		Diff		SA
	Increase	Change	Decrease	Index^	Index**^	Increase	Change	Decrease	Index^	Increase	Change	Decrease	Index^	Index**^
Composite Index				24	23				34				32	32
Production	45	31	23	22	20	59	22	19	41	61	27	12	49	47
Volume of shipments	45	33	22	23	25	62	18	20	42	61	26	13	48	45
Volume of new orders	43	44	14	29	27	59	28	14	45	55	34	12	43	45
Backlog of orders	36	51	13	23	23	47	40	13	34	41	49	9	32	33
Number of employees	34	55	11	23	21	51	29	21	30	47	44	9	37	35
Average employee workweek	26	61	13	14	12	39	48	13	26	30	64	6	24	27
Prices received for finished product	21	72	7	14	13	48	37	15	33	38	55	7	31	32
Prices paid for raw materials	28	67	5	23	25	66	29	5	61	52	45	4	48	43
Capital expenditures						40	42	19	21	37	51	12	25	22
New orders for exports	15	76	9	6	8	19	71	10	9	22	72	6	15	15
Supplier delivery time	24	73	4	20	20	29	67	4	26	16	77	7	9	9
Inventories: Materials	35	55	10	25	29	47	36	17	30	38	44	18	20	22
Inventories: Finished goods	29	57	14	14	18	37	41	22	15	36	47	17	19	17

*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 October survey included 88 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Composite Index vs. a Month Ago

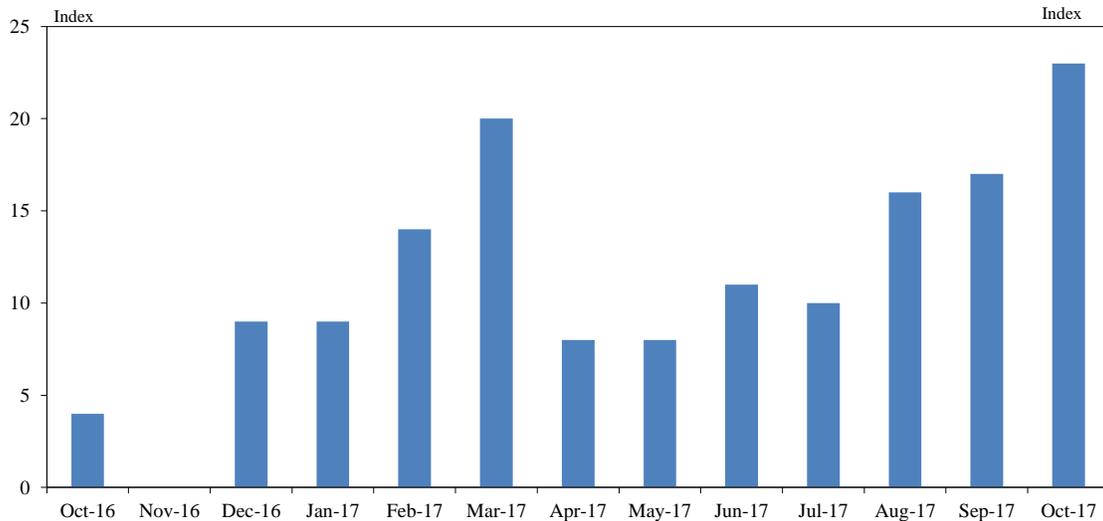


Table2
Historical Manufacturing Survey Indexes

	Oct'16	Nov'16	Dec'16	Jan'17	Feb'17	Mar'17	Apr'17	May'17	Jun'17	Jul'17	Aug'17	Sept'17	Oct'17
Versus a Month Ago (seasonally adjusted)													
Composite Index	4	0	9	9	14	20	8	8	11	10	16	17	23
Production	12	5	18	20	11	37	13	-1	23	4	22	22	20
Volume of shipments	18	4	8	20	16	35	11	3	23	-2	23	25	25
Volume of new orders	9	5	5	20	26	32	9	9	4	10	25	10	27
Backlog of orders	3	-2	4	14	20	21	7	12	-6	-1	13	7	23
Number of employees	3	-1	8	6	17	13	9	11	15	15	14	18	21
Average employee workweek	5	-9	3	9	15	13	-4	1	7	1	9	7	12
Prices received for finished product	-6	-4	10	0	1	9	6	8	-2	5	8	13	13
Prices paid for raw materials	2	12	29	24	26	29	34	17	17	18	21	24	25
Capital expenditures	n/a	n/a											
New orders for exports	0	-3	-4	-5	9	2	4	4	4	-3	4	6	8
Supplier delivery time	3	0	7	4	6	2	5	14	9	10	10	22	20
Inventories: Materials	-9	-8	4	-3	12	16	4	4	2	10	10	11	29
Inventories: Finished goods	-8	-14	0	-4	5	18	8	0	-2	8	2	-6	18
Versus a Year Ago (not seasonally adjusted)													
Composite Index	-11	-10	0	7	6	14	13	18	28	24	23	35	34
Production	-16	-21	0	11	3	17	19	20	43	28	27	56	41
Volume of shipments	-21	-20	1	7	7	14	17	16	39	33	29	49	42
Volume of new orders	-4	-8	4	20	15	30	16	28	35	38	27	47	45
Backlog of orders	-9	-13	-5	6	10	16	20	27	20	22	18	37	34
Number of employees	-14	-11	-5	3	-2	17	15	19	24	23	22	30	30
Average employee workweek	-11	-9	5	-4	-3	6	0	13	11	15	20	31	26
Prices received for finished product	1	10	17	13	14	26	30	16	15	20	29	38	33
Prices paid for raw materials	14	20	25	31	28	37	50	45	48	45	48	56	61
Capital expenditures	-7	-1	2	-2	15	12	5	16	13	15	21	26	21
New orders for exports	-11	-12	-5	-1	-1	4	11	5	7	0	9	10	9
Supplier delivery time	-1	4	8	6	10	7	14	15	15	19	23	27	26
Inventories: Materials	-19	-15	-9	-3	4	1	4	8	22	10	18	16	30
Inventories: Finished goods	-17	-6	-10	-3	-5	4	-3	17	11	7	6	2	15
Expected in Six Months (seasonally adjusted)													
Composite Index	16	12	17	27	30	32	18	30	25	20	23	26	32
Production	30	23	29	50	42	51	29	50	42	29	38	38	47
Volume of shipments	30	22	29	47	40	53	29	44	38	34	38	38	45
Volume of new orders	17	25	35	42	38	43	16	46	39	26	39	27	45
Backlog of orders	5	10	26	36	15	29	13	30	13	10	19	21	33
Number of employees	18	6	11	32	31	43	28	25	33	26	26	26	35
Average employee workweek	3	5	14	22	20	11	6	18	10	18	1	7	27
Prices received for finished product	8	9	21	21	22	27	26	24	21	13	34	29	32
Prices paid for raw materials	18	21	38	38	54	60	47	37	51	37	39	39	43
Capital expenditures	7	14	10	20	28	34	12	23	17	17	18	13	22
New orders for exports	1	6	3	5	14	9	11	17	13	1	4	8	15
Supplier delivery time	5	4	5	5	17	13	14	21	11	15	14	18	9
Inventories: Materials	12	1	4	8	21	8	4	10	0	4	-2	19	22
Inventories: Finished goods	5	-3	2	7	25	4	13	15	7	18	-6	9	17

Chart 2. Special Question

If your firm is experiencing wage pressures, in what areas are those concentrated?

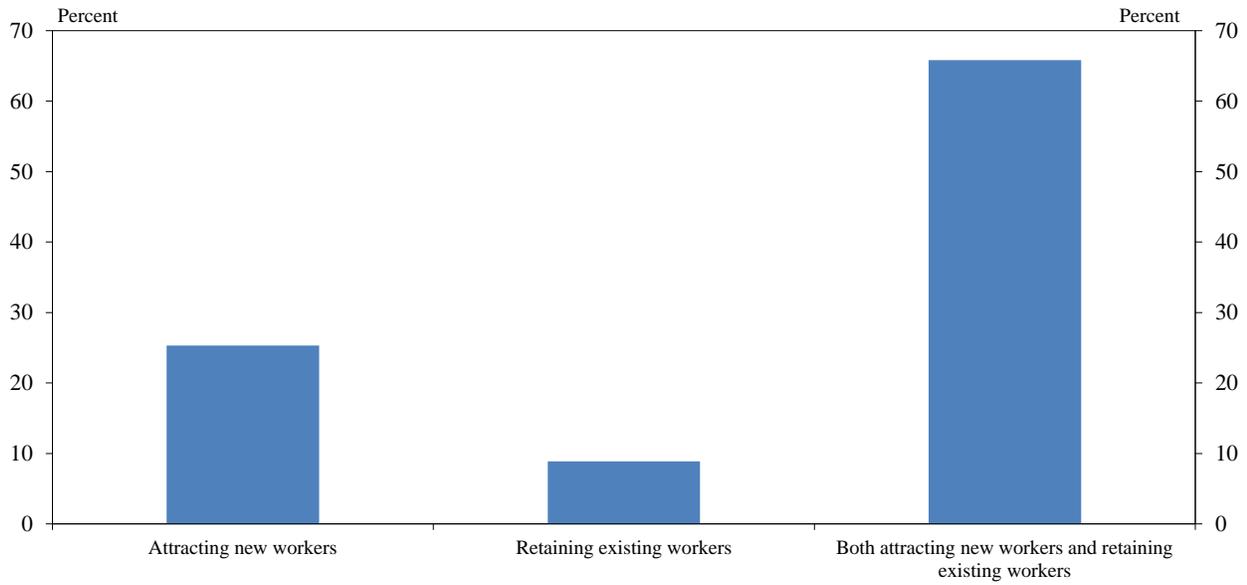


Chart 3. Special Question

Has your firm implemented any new technology to replace workers (or do you have plans to do so in the near future)?

