FOR RELEASE Friday, December 21, 2018
EMBARGOED FOR 10 A.M. CENTRAL TIME
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GROWTH IN TENTH DISTRICT MANUFACTURING ACTIVITY SLOWED

Federal Reserve Bank of Kansas City Releases December Manufacturing Survey

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the December Manufacturing Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that growth in Tenth District manufacturing activity slowed, while expectations for future activity edged slightly higher.

"Factories in our region reported a drop in production in December but continued growth in orders, employment, and capital spending" said Wilkerson. "Several contacts noted difficulties with weather or with having enough workers to meet demand."

A summary of the December 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

Growth in Tenth District manufacturing activity slowed in December, while expectations for future activity edged slightly higher. Price indexes were mixed, with a considerable drop in month-over-month price indexes but higher prices expected in the next six months.

The month-over-month composite index was 3 in December, down from 15 in November and 8 in October (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. The slowdown in factory growth was driven by both durable and nondurable goods producers, particularly metals, electronics, and petroleum/coal products. Most month-over-month indexes fell from the previous month's reading, although the majority remained in positive territory. Exceptions included production, dropping from 24 to -18, and shipments, falling from 31 to -3, and new orders for exports, decreasing from 6 to -7. The employment index edged slightly higher, and new orders and order backlog indexes remained moderately positive. The materials inventory index rose from 15 to 19 and the finished goods inventory index also moved up.

Most year-over-year factory indexes fell slightly from the previous month. The composite index eased from 40 to 38, and the production, shipments, and new orders indexes also decreased. The employment index edged lower from 49 to 46, while the order backlog index was relatively unchanged. The finished goods and raw materials inventory indexes both increased somewhat.

Future factory activity expectations were slightly higher overall. The future composite index increased from 16 to 20, and the future employment and capital expenditures indexes also rose moderately. On the other hand, the future production, shipments, new orders, and order backlog indexes eased modestly. The future raw materials inventory index inched higher from 3 to 6, while the future finished goods inventory index was relatively unchanged.

Price indexes were mixed in December. The month-over-month finished goods price index dropped from 23 to 2, and the raw materials price index also fell considerably. The year-over-year raw materials price index edged up from 75 to 79, while the finished goods price index eased somewhat. The future finished goods price index rose from 30 to 38, while the future raw materials price index was unchanged.

SELECTED COMMENTS

"Orders roughly met expectations while our ability to produce and ship fell short of expectations. We struggle to obtain productivity comparable to the last few years. We believe it is caused by a lower quality of entry-level employee available during peak production periods. We are increasing entry-level wages materially, working with educational resources and enhancing internal training to combat the problem."

"We were doing well this past spring until the tariffs hit. This has been really bad for both our domestic and international business. Our domestic farmers stopped spending money. Our costs went up significantly and therefore made us less competitive with our foreign competitors."

"The business outlook for 2019 looks very good. We are taking a very measured approach on new business opportunities to make sure those opportunities fit our synergies and that we have resolved any issues with our existing business."

"We are investing in more automation given the labor constraints."

"Business has been good enough to allow us to consider restarting our capital expenditure program that was paused in 2015."

"Chinese tariffs have caused our Chinese customers to reduce their order backlog and seek local suppliers. This is impacting our order level significantly."

"Sales volume in a couple of our key accounts did not meet our projections."

"We've had challenges meeting deadlines for customers due to our work load – more work than we can get completed. We have also been forced to turn away a fair amount of work."

"Federal, state, and local infrastructure spending is lower than 2017."

"Strong orders with increased pricing from our side has boosted our sales over our budget and forecast."

"Activity remained strong until the election and cold weather in the Midwest. Expect a strong start to spring."

“Our company’s plants have been running most at capacity for the year, so customers have been willing to pay higher prices for allocation of capacity.”

“Summer order activity slowed after a fairly brisk first half of the year. We have seen a slight uptick in September/October, but business is still a bit slow.”

“Demand has been higher than projected. Meeting his demand has been difficult because of labor constraints.”

“We need to update some machinery and have held off in 2018 and will do so in 2019.”

“With some softening in demand in 2019 we are forecasting a flat capital expenditures number, year over year.”

“We are using our tax reduction to make significant investments in our plants. We would move faster, but the precarious economy and lack of bipartisan support for business in the US is making us not want to move faster than our cash flow dictates.”

“With oil pricing unsteady we are on a wait and see basis.”

“The impact of tariffs have reduced our capital spending plans.”

“Not sure everything is going to be as good as we originally thought.”

“Sales are weak so we have to pull back.”

“The tariffs and increasing material costs are hurting top line performance.”

“Fall in oil prices has brought some slowdown but still optimistic.”

Table 1
Summary of Tenth District Manufacturing Conditions, December 2018

	December vs. November (percent)*					December vs. Year Ago (percent)*				Expected in Six Months (percent)*				
Plant Level Indicators	Increase	No Change	Decrease	Diff Index^	SA Index*^	Increase	No Change	Decrease	Diff Index^	Increase	No Change	Decrease	Diff Index^	SA Index*^
Composite Index				2	3				38				26	20
Production	20	42	38	-18	-18	57	21	22	35	51	31	19	32	19
Volume of shipments	24	42	35	-11	-3	61	17	22	39	51	33	16	35	20
Volume of new orders	27	38	35	-7	4	56	24	20	37	47	35	18	29	22
Backlog of orders	29	45	26	4	9	49	37	14	35	35	46	19	16	6
Number of employees	25	60	14	11	8	61	24	15	46	48	44	7	41	37
Average employee workweek	16	72	12	4	1	38	54	7	31	30	61	9	21	12
Prices received for finished product	16	75	10	6	2	65	25	10	56	51	41	8	44	38
Prices paid for raw materials	40	49	11	30	28	84	11	5	79	64	26	10	53	46
Capital expenditures						53	37	10	43	48	42	10	38	29
New orders for exports	6	82	11	-5	-7	19	72	9	10	22	67	11	12	9
Supplier delivery time	17	74	9	9	4	33	60	7	26	19	79	3	16	15
Inventories: Materials	35	45	20	14	19	60	29	11	49	31	49	19	12	6
Inventories: Finished goods	32	49	19	14	15	51	33	16	34	33	45	22	12	9

*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 December survey included 84 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Composite Index vs. a Month Ago

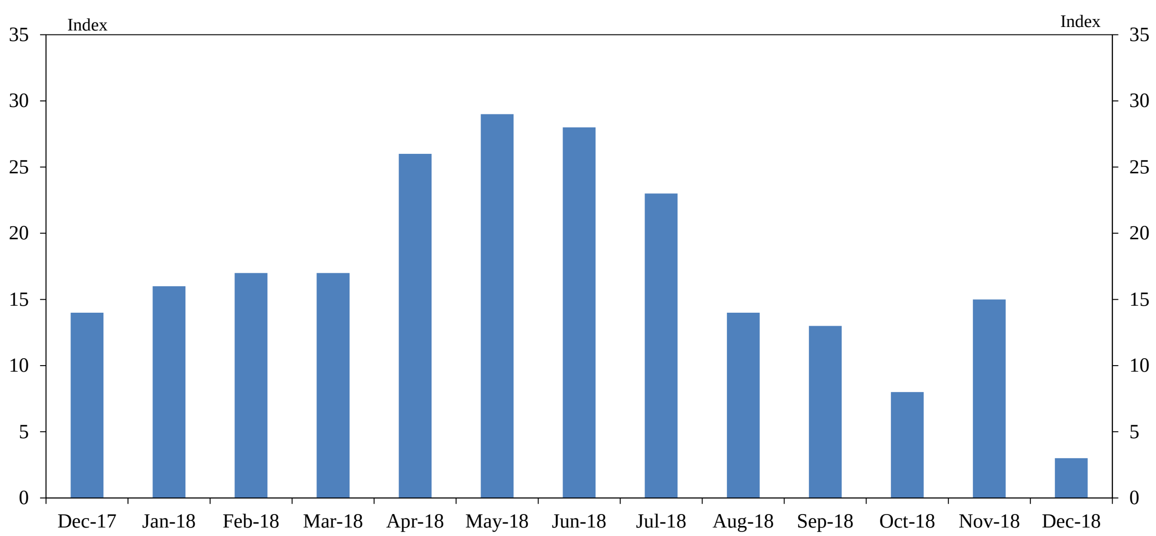

Table2
Historical Manufacturing Survey Indexes

	Dec'17	Jan'18	Feb'18	Mar'18	Apr'18	May'18	Jun'18	Jul'18	Aug'18	Sep'18	Oct'18	Nov'18	Dec'18
Versus a Month Ago													
(seasonally adjusted)													
Composite Index	13	16	17	17	26	29	28	23	14	13	8	15	3
Production	16	16	21	20	33	41	38	22	10	10	5	24	-18
Volume of shipments	10	14	24	12	37	42	39	12	18	2	14	31	-3
Volume of new orders	11	14	16	-1	37	38	27	21	9	15	7	20	4
Backlog of orders	8	20	13	14	29	27	10	9	8	4	6	18	9
Number of employees	16	18	23	26	26	24	24	26	14	1	8	6	8
Average employee workweek	10	2	11	15	10	24	25	14	1	3	4	3	1
Prices received for finished product	11	21	26	24	29	22	22	27	27	24	19	23	2
Prices paid for raw materials	15	34	50	55	52	53	47	52	44	45	33	41	28
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	6	2	1	1	9	6	6	-1	1	3	6	-7
Supplier delivery time	13	18	16	30	17	23	22	28	19	18	8	11	4
Inventories: Materials	7	15	8	11	17	19	27	17	17	20	10	15	19
Inventories: Finished goods	-8	3	4	9	4	11	16	11	9	7	7	11	15
Versus a Year Ago													
(not seasonally adjusted)													
Composite Index	30	35	38	37	36	45	43	44	37	41	45	40	38
Production	36	40	51	45	40	56	45	48	34	44	54	39	35
Volume of shipments	39	39	54	36	34	56	51	44	32	42	50	47	39
Volume of new orders	38	37	55	44	43	54	53	49	44	46	57	46	37
Backlog of orders	20	42	47	31	38	41	35	43	35	41	40	34	35
Number of employees	35	31	39	37	35	49	48	47	33	36	49	49	46
Average employee workweek	28	30	28	23	28	37	44	33	25	24	30	30	31
Prices received for finished product	37	49	51	49	60	56	60	60	50	56	60	61	56
Prices paid for raw materials	55	65	71	74	74	77	79	86	67	79	78	75	79
Capital expenditures	39	34	37	19	26	33	32	39	43	47	30	48	43
New orders for exports	8	15	18	12	10	13	7	13	9	11	11	20	10
Supplier delivery time	25	27	20	30	28	37	31	42	39	35	27	23	26
Inventories: Materials	15	38	23	30	32	28	36	32	34	45	37	42	49
Inventories: Finished goods	8	15	18	19	12	24	26	23	30	31	21	33	34
Expected in Six Months													
(seasonally adjusted)													
Composite Index	23	29	38	33	31	26	36	34	29	27	21	16	20
Production	29	37	56	42	44	32	53	49	44	38	37	27	19
Volume of shipments	28	32	49	42	47	39	52	52	40	34	34	25	20
Volume of new orders	24	36	49	42	30	26	42	37	36	35	41	25	22
Backlog of orders	13	30	32	30	26	24	25	29	16	17	27	8	6
Number of employees	36	33	41	36	35	35	37	42	33	29	15	20	37
Average employee workweek	10	23	25	17	23	12	31	13	15	14	7	12	12
Prices received for finished product	31	44	53	48	53	44	40	43	28	44	38	30	38
Prices paid for raw materials	49	58	73	72	66	63	67	68	40	57	37	46	46
Capital expenditures	22	38	36	37	37	33	36	38	28	36	14	23	29
New orders for exports	9	19	16	14	12	11	7	8	9	15	8	20	9
Supplier delivery time	18	25	18	23	28	30	20	29	21	18	11	6	15
Inventories: Materials	7	15	23	21	19	7	30	15	11	17	3	3	6
Inventories: Finished goods	12	19	11	15	11	3	23	7	10	9	-5	8	9