

# News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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FOR RELEASE Thursday, September 27, 2018  
EMBARGOED FOR 10 A.M. CENTRAL TIME  
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## TENTH DISTRICT MANUFACTURING ACTIVITY CONTINUED AT A SOLID PACE *Federal Reserve Bank of Kansas City Releases September Manufacturing Survey*

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the September 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 grow at a solid pace, and optimism for future activity remained high.

“Regional factories reported another solid month of growth,” said Wilkerson. “This was even with over two-thirds of respondents noting that tariffs had negatively affected their business.”

A summary of the September survey is attached. Results from past surveys and release dates for future surveys can be found at [www.kansascityfed.org/research/indicatorsdata/mfg](http://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](http://www.kansascityfed.org).

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## TENTH DISTRICT MANUFACTURING SUMMARY

Tenth District manufacturing activity expanded at a solid pace again in September, though growth was somewhat slower than the rapid rate earlier in the year. Expectations for future growth remained positive, despite continued concerns about trade and tariffs. Price indexes mostly increased.

The month-over-month composite index was 13 in September, largely unchanged from 14 in August but down from 23 in July (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. Growth in factory activity was driven by durable goods plants, specifically from increases in nonmetallic minerals, metals, and electronics, while activity at nondurable goods plants slowed slightly. Month-over-month indexes were mixed compared to August, but all remained positive. The shipments and employment indexes declined, and the order backlog index dipped slightly. The production index was unchanged from last month's reading. On the other hand, the new orders for exports index inched up and the new orders index increased. The finished goods inventory index edged lower while the raw materials inventory rose modestly.

Most year-over-year factory indexes increased in September. The composite index grew from 37 to 41, and new orders, employment, capital expenditures, and new orders for exports all edged higher. Additionally, the production, shipments, and order backlog indexes all rose moderately this month after a slight decline in August. The finished goods inventory index inched up and the raw materials inventory index continued to increase.

Future factory activity expectations eased slightly, but remained favorable. The future composite index dipped from 29 to 27, and the future production, shipments, employment, and new orders indexes also edged lower. In contrast, the future capital expenditures and new orders for exports improved modestly and the future order backlog index inched higher. The future raw materials index grew from 11 to 17, while the future finished goods inventory index eased slightly.

Most price indexes increased in September. The month-over-month raw materials price index edged up from 44 to 45, while the finished goods price index dipped from 27 to 24. The year-over-year finished goods price index rose from 50 to 56, and the year-over-year raw materials price index also increased from 67 to 79. The future finished goods price index grew from 28 to 44, and the future raw materials price index expanded from 40 to 57.

This month firms were asked special questions about the impact of tariffs and recent federal tax cuts. More than 70 percent of respondents reported a slight or strong negative impact on business from tariffs (Chart 2). Roughly 7 percent of firms reported positive impacts from tariffs, while more than 22 percent of respondents reported no impact on business from tariffs. On tax cuts, nearly 38 percent of firms reported no savings, 31 percent reported less than five percent savings, and 18 percent of firms reported five to ten percent savings (Chart 3). Only 14 percent of firms reported more than ten percent savings from the most recent federal tax cuts.

## **SELECTED COMMENTS**

“We have seen material costs increase but our customers are accepting price increases. Our largest impact is from mismatched timing of price increases versus cost increases.”

“Volume of business is increasing steadily. Cost of goods may be increasing at a more rapid rate in the future.”

“We intended to use any tax savings to improve our facility, equipment, process flow and employee pay/benefits. Unfortunately, unforeseen tariffs are consuming more dollars than realized by the tax savings. Once again, manufacturing takes it on the chin while the gap between government and manufacturing job growth has grown.”

“With the economy close to full employment, it is difficult to attract and retain good workers without upsetting our current pay scales.”

“We cannot find employees to increase our capacity.”

“Finding people to work still is our greatest challenge. We are working 6 days a week and have a very difficult time getting people to show up. Overtime is taking a toll on the financial statement and on our employees. They want time off and it’s hard to give it to them.”

“Still very positive outlook for business the balance of this year and next year.”

**Table 1**  
**Summary of Tenth District Manufacturing Conditions, September 2018**

Plant Level Indicators	September vs. August (percent)*					September vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	Change	Decrease	Diff Index^	SA Index**^	Increase	Change	Decrease	Diff Index^	Increase	Change	Decrease	Diff Index^	SA Index**^
Composite Index				13	13				41				27	27
Production	38	41	22	16	10	65	15	20	44	52	33	15	37	38
Volume of shipments	34	40	26	8	2	62	17	21	42	49	36	14	35	34
Volume of new orders	34	43	23	11	15	62	22	16	46	49	36	15	34	35
Backlog of orders	27	51	22	5	4	56	29	15	41	36	47	17	18	17
Number of employees	24	55	21	4	1	54	28	18	36	36	54	10	26	29
Average employee workweek	20	63	16	4	3	41	42	17	24	30	53	17	13	14
Prices received for finished product	29	67	4	25	24	66	24	10	56	50	44	6	44	44
Prices paid for raw materials	50	44	6	44	45	85	10	5	79	65	28	8	58	57
Capital expenditures						54	39	7	47	42	53	5	37	36
New orders for exports	12	79	9	3	1	22	68	11	11	21	72	7	14	15
Supplier delivery time	23	71	6	17	18	44	47	9	35	30	60	10	19	18
Inventories: Materials	30	55	14	16	20	59	26	14	45	31	56	13	18	17
Inventories: Finished goods	27	56	17	9	7	51	28	20	31	28	53	20	8	9

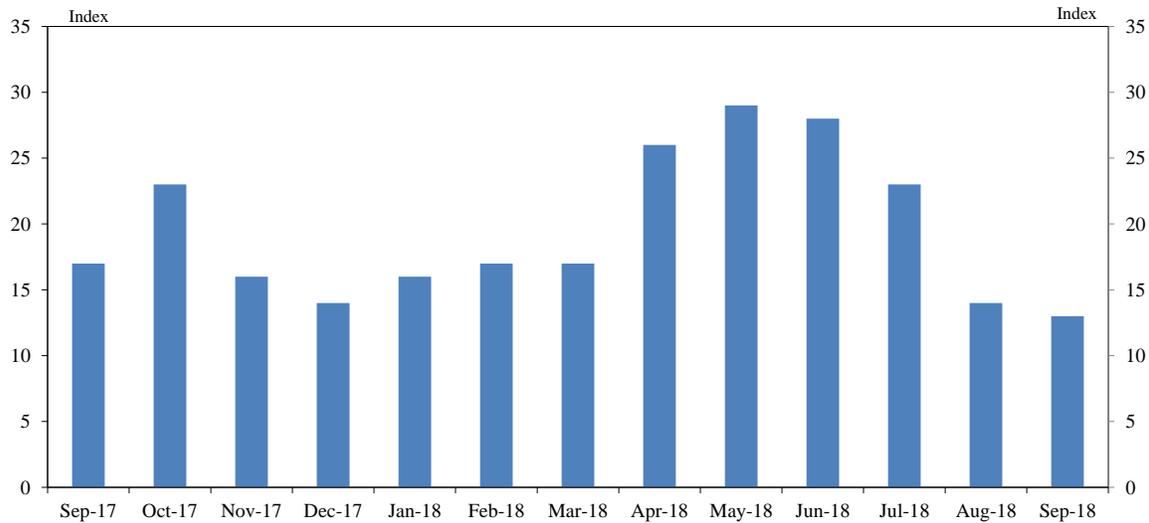
\*Percentage may not add to 100 due to rounding

^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 September survey included 80 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

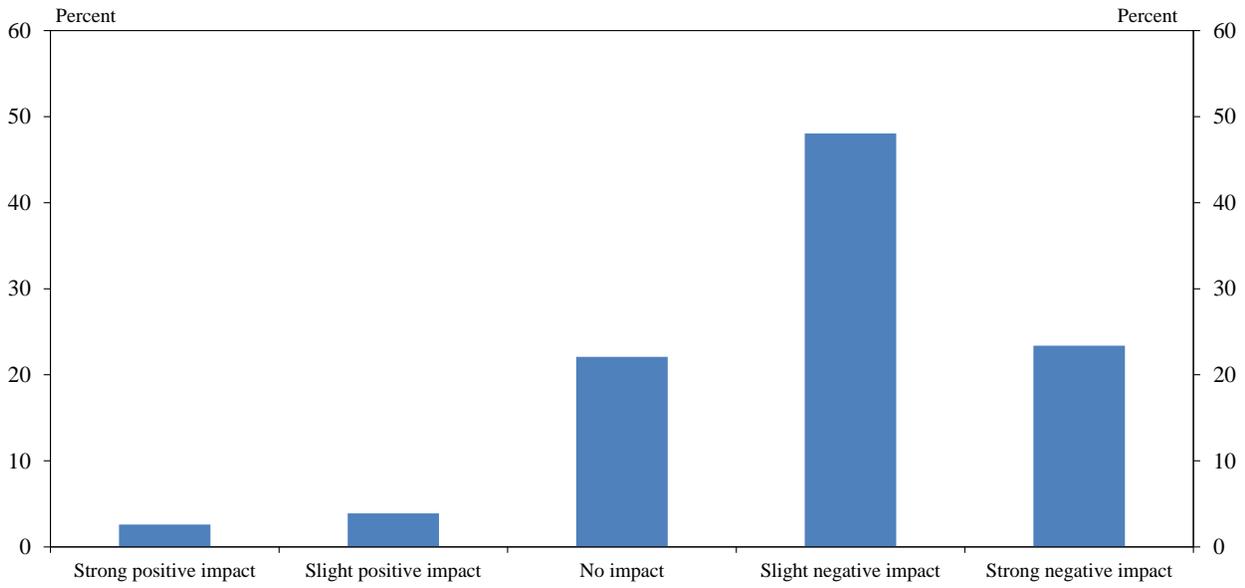
**Chart 1. Composite Index vs. a Month Ago**



**Table2**  
**Historical Manufacturing Survey Indexes**

	Sept'17	Oct'17	Nov'17	Dec'17	Jan'18	Feb'18	Mar'18	Apr'18	May'18	Jun'18	Jul'18	Aug'18	Sept'18
Versus a Month Ago (seasonally adjusted)													
Composite Index	18	22	15	13	16	17	17	26	29	28	23	14	13
Production	21	18	15	16	16	21	20	33	41	38	22	10	10
Volume of shipments	24	20	19	10	14	24	12	37	42	39	12	18	2
Volume of new orders	15	24	19	11	14	16	-1	37	38	27	21	9	15
Backlog of orders	9	22	13	8	20	13	14	29	27	10	9	8	4
Number of employees	18	19	16	16	18	23	26	26	24	24	26	14	1
Average employee workweek	7	10	6	10	2	11	15	10	24	25	14	1	3
Prices received for finished product	12	11	11	11	21	26	24	29	22	22	27	27	24
Prices paid for raw materials	25	22	24	15	34	50	55	52	53	47	52	44	45
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	6	6	-1	4	6	2	1	1	9	6	6	-1	1
Supplier delivery time	22	19	8	13	18	16	30	17	23	22	28	19	18
Inventories: Materials	13	28	16	7	15	8	11	17	19	27	17	17	20
Inventories: Finished goods	-6	18	3	-8	3	4	9	4	11	16	11	9	7
Versus a Year Ago (not seasonally adjusted)													
Composite Index	35	34	37	30	35	38	37	36	45	43	44	37	41
Production	56	41	51	36	40	51	45	40	56	45	48	34	44
Volume of shipments	49	42	49	39	39	54	36	34	56	51	44	32	42
Volume of new orders	47	45	41	38	37	55	44	43	54	53	49	44	46
Backlog of orders	37	34	42	20	42	47	31	38	41	35	43	35	41
Number of employees	30	30	32	35	31	39	37	35	49	48	47	33	36
Average employee workweek	31	26	35	28	30	28	23	28	37	44	33	25	24
Prices received for finished product	38	33	35	37	49	51	49	60	56	60	60	50	56
Prices paid for raw materials	56	61	64	55	65	71	74	74	77	79	86	67	79
Capital expenditures	26	21	19	39	34	37	19	26	33	32	39	43	47
New orders for exports	10	9	9	8	15	18	12	10	13	7	13	9	11
Supplier delivery time	27	26	18	25	27	20	30	28	37	31	42	39	35
Inventories: Materials	16	30	45	15	38	23	30	32	28	36	32	34	45
Inventories: Finished goods	2	15	28	8	15	18	19	12	24	26	23	30	31
Expected in Six Months (seasonally adjusted)													
Composite Index	26	30	26	23	29	38	33	31	26	36	34	29	27
Production	40	45	42	29	37	56	42	44	32	53	49	44	38
Volume of shipments	39	42	38	28	32	49	42	47	39	52	52	40	34
Volume of new orders	29	47	32	24	36	49	42	30	26	42	37	36	35
Backlog of orders	21	31	26	13	30	32	30	26	24	25	29	16	17
Number of employees	28	33	30	36	33	41	36	35	35	37	42	33	29
Average employee workweek	9	27	14	10	23	25	17	23	12	31	13	15	14
Prices received for finished product	29	31	38	31	44	53	48	53	44	40	43	28	44
Prices paid for raw materials	42	44	59	49	58	73	72	66	63	67	68	40	57
Capital expenditures	15	21	19	22	38	36	37	37	33	36	38	28	36
New orders for exports	9	15	8	9	19	16	14	12	11	7	8	9	15
Supplier delivery time	16	10	14	18	25	18	23	28	30	20	29	21	18
Inventories: Materials	14	16	12	7	15	23	21	19	7	30	15	11	17
Inventories: Finished goods	10	14	9	12	19	11	15	11	3	23	7	10	9

**Chart 2. Special Question**  
**How has your business been impacted by tariffs?**



**Chart 3. Special Question**  
**What level of savings has your firm experienced from the latest federal tax cuts?**

