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Tenth District Manufacturing Activity Nearly Flat in January
Federal Reserve Bank of Kansas City Releases January Manufacturing Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the January 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 was nearly flat in January while expectations for future activity expanded.

“Regional factory activity was down only slightly in January, and firms reported a modest increase in employment,” said Wilkerson. “Contacts reported slightly less difficulty finding workers than six months ago, but still over 60 percent of firms were experiencing labor shortages.”

A summary of the January survey is attached. The January survey incorporates new seasonal adjustment factors, so historical indexes differ slightly from previously-released numbers. Seasonally adjusted data has been updated to reflect the Census X-13 seasonal adjustment program. The new seasonal factors will be used throughout 2020. 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 was nearly flat in January while expectations for future activity expanded (Chart 1). The month-over-month prices for raw materials increased, while prices for finished products declined from a month ago. District firms continued to expect higher prices in the next 6 months.

Factory Activity Nearly Flat in January

The month-over-month composite index was -1 in January, slightly higher than -5 in December and -2 in November (Table 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The slight decrease in district manufacturing activity was driven by declines in: nonmetallic mineral products, primary metal, fabricated metal products, computer and electronic products, beverage and tobacco products, and printing manufacturing, while several other industries improved. Most month-over-month indexes remained slightly negative in January, and inventories continued to decline. However, the month-over-month employment index rose back into positive territory for the first time in over six months and the supplier delivery time index was also slightly positive. Year-over-year factory indexes dropped further in January, and the composite decreased from -4 to -7. On the other hand, the future composite index grew from 9 to 14 in January.

Special Questions

This month contacts were asked special questions about the labor market. Over 62 percent of District manufacturing contacts reported workers were in short supply, down slightly from July 2019 when more than 77 percent of District firms reported workers were in short supply (Chart 2). Nearly 54 percent of firms reported they were raising wages more than normal to attract or keep workers in January 2020, compared to over 61 percent of firms that reported having to raise wages more than normal in July 2019 (Chart 3).

Selected Manufacturing Comments

“We are seeing our normal slowdown for the beginning of the year...we are expecting sales to increase as we move through the 1st quarter. We are feeling good about the future.”

“Tariffs continue to reduce hiring, cap spending, sales and cash.”

“Overall sales are flat. We are seeing an increase of raw material costs.”

“Our business is not doing poorly, it is just not as robust as it has been. The inventory burn... over the past 9 months, along with a significant drop in steel cost, made business and results softer than the prior couple of years... while results may not be what they were in 2018 and early 2019, we expect them to improve.”

“Lack of workers and uncertain trade and tariffs negatively affect business.”

“Tariffs continue to negatively impact manufacturing.”

“Generally speaking, we are anticipating our business to be flat to down 10% this year compared to last.”

“The trade deals will help our business.”

“We were very aggressive last year in raising our starting wage and gave raises every quarter to retain the people we were able to hire to try and keep them.”

“We have focused salary increases on entry-level personnel. We increased our entry target by nearly 10% during the year and included additional raises at year-end. We are seeing improved trend on retention following the changes.”

“A considerable amount of company time is spent on searching and recruiting employees. Turnover is very high for the unskilled workers seeking employment, which means we are spending a lot of time and money on initial training... availability of reliable and skilled labor is almost at crisis level and is delaying our plans to grow, which makes looking outside the U.S. for products we currently manufacture more inevitable. We are also looking to automate processes, but our relatively low volume and high variety of products make automation unlikely.”

Table 1. Summary of Tenth District Manufacturing Conditions, January 2020

Plant Level Indicators	January vs. December (percent)*					January vs. Year Ago (percent)*					Expected in Six Months (percent)*				
				Diff	SA				Diff					Diff	SA
	Increase	Change	Decrease	Index [^]	Index ^{^^}	Increase	Change	Decrease	Index [^]	Increase	Change	Decrease	Index [^]	Index ^{^^}	
Composite Index				-4	-1				-7				15	14	
Production	26	40	34	-9	-4	32	24	43	-11	48	27	26	22	23	
Volume of shipments	28	36	37	-9	-4	34	22	44	-10	51	25	25	26	25	
Volume of new orders	30	37	33	-3	-2	27	27	47	-20	40	32	28	12	9	
Backlog of orders	19	48	34	-15	-20	21	34	45	-24	30	44	26	3	4	
Number of employees	19	61	20	-1	4	36	30	34	1	39	43	18	21	20	
Average employee workweek	16	60	24	-9	-3	18	52	30	-12	24	56	20	3	0	
Prices received for finished product	13	70	17	-3	-3	41	40	19	22	29	60	11	18	20	
Prices paid for raw materials	31	63	6	26	28	50	26	24	26	40	52	8	32	35	
Capital expenditures						30	45	25	5	29	53	18	10	8	
New orders for exports	10	79	12	-2	-4	12	67	21	-9	14	65	20	-6	-6	
Supplier delivery time	8	89	3	5	3	13	75	13	0	13	80	7	7	8	
Inventories: Materials	22	46	31	-9	-8	29	36	35	-6	30	51	19	10	8	
Inventories: Finished goods	24	44	31	-7	-6	28	41	31	-3	26	59	15	11	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-13.

Note: The January survey was open for a six-day period from January 15-21, 2020 and included 90 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Index vs. a Month Ago

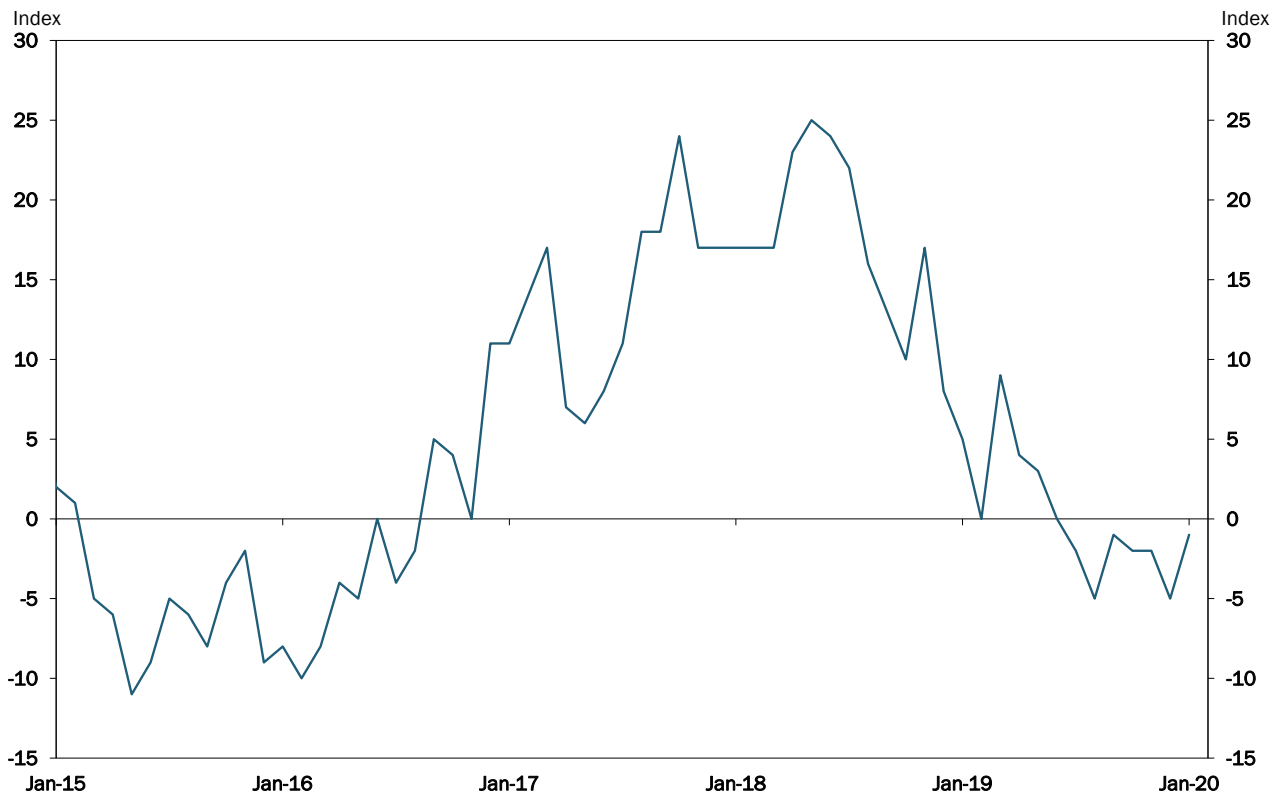


Chart 2. Special Question: Are any types of workers in short supply?

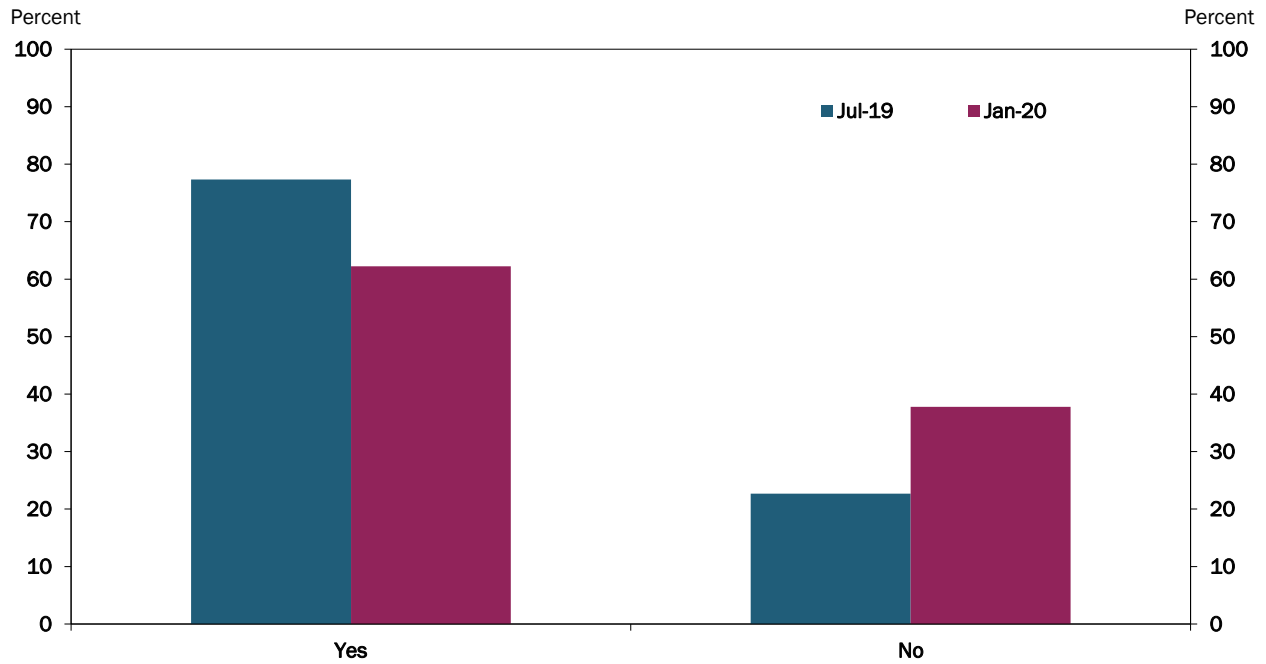


Chart 3. Special Question: Are you having to raise wages more than normal to attract or keep any types of workers?

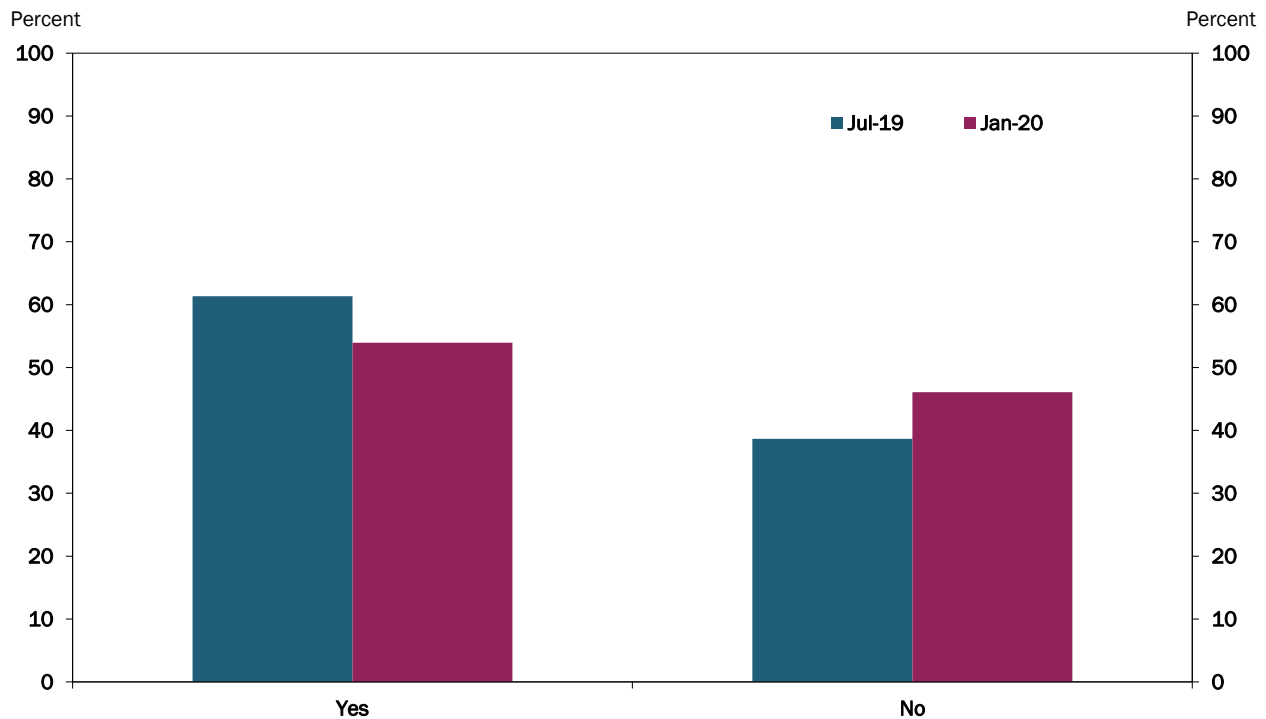


Table 2
Historical Manufacturing Survey Indexes

	Jan'19	Feb'19	Mar'19	Apr'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	Oct'19	Nov'19	Dec'19	Jan'20
Versus a Month Ago (seasonally adjusted)													
Composite Index	5	0	9	4	3	0	-2	-5	-1	-2	-2	-5	-1
Production	2	-2	13	9	1	-2	-5	-1	9	7	-2	-3	-4
Volume of shipments	6	-14	11	8	0	-5	-1	-5	6	1	4	-3	-4
Volume of new orders	1	-11	3	6	2	3	-2	-13	-2	-9	-4	-13	-2
Backlog of orders	-16	-19	8	-7	-7	-7	-12	-16	-16	-12	-8	-14	-20
Number of employees	8	7	12	1	3	3	-5	-6	-10	-5	-7	-7	4
Average employee workweek	6	0	11	13	2	2	-3	6	8	3	-3	-4	-3
Prices received for finished product	21	16	8	10	15	5	3	0	2	4	3	-2	-3
Prices paid for raw materials	24	18	15	15	13	10	15	1	-4	1	10	13	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	-11	-2	3	7	4	-4	-5	-2	-3	-5	-4	-8	-4
Supplier delivery time	12	10	8	6	7	-1	4	-5	2	3	9	4	3
Inventories: Materials	3	-2	7	-3	0	-3	0	1	-5	-5	-7	-6	-8
Inventories: Finished goods	6	3	3	1	6	3	-1	-5	-7	-1	-3	-6	-6
Versus a Year Ago (not seasonally adjusted)													
Composite Index	31	23	27	22	23	4	11	-1	-1	-1	6	-4	-7
Production	26	13	29	24	28	-7	8	-1	-6	-3	6	-5	-11
Volume of shipments	19	10	29	16	21	-3	5	3	6	-6	13	-7	-10
Volume of new orders	28	15	25	23	16	-12	1	-16	-1	-10	0	-14	-20
Backlog of orders	19	16	11	9	17	-8	-7	-12	-16	-6	-5	-17	-24
Number of employees	38	44	34	28	26	20	14	8	7	7	10	7	1
Average employee workweek	19	4	12	6	-1	-1	4	-3	6	3	3	-3	-12
Prices received for finished product	53	52	53	59	53	52	56	41	33	36	29	27	22
Prices paid for raw materials	69	73	64	76	60	46	56	33	26	26	25	36	26
Capital expenditures	26	11	15	19	24	7	25	19	22	13	24	15	5
New orders for exports	-4	-6	10	1	11	7	-3	-3	-8	-1	-1	-9	-9
Supplier delivery time	25	19	14	18	21	1	18	3	2	2	6	5	0
Inventories: Materials	36	24	35	18	25	17	12	4	-8	0	9	-10	-6
Inventories: Finished goods	27	14	27	24	25	18	21	1	-1	-1	13	-9	-3
Expected in Six Months (seasonally adjusted)													
Composite Index	18	14	20	12	12	10	9	11	6	4	16	9	14
Production	29	20	26	16	19	20	20	20	7	5	27	14	23
Volume of shipments	29	18	28	16	21	20	15	18	7	5	27	11	25
Volume of new orders	24	16	26	13	14	16	15	11	13	11	28	16	9
Backlog of orders	13	3	14	3	-2	8	-4	3	-10	-13	1	-4	4
Number of employees	24	25	29	19	21	12	8	9	14	6	7	9	20
Average employee workweek	7	5	12	-3	1	-2	-3	3	-1	3	12	-4	0
Prices received for finished product	40	34	36	34	34	30	20	22	18	18	17	13	20
Prices paid for raw materials	48	43	44	46	48	36	37	36	31	25	31	36	35
Capital expenditures	31	10	27	22	24	12	15	13	9	6	17	8	8
New orders for exports	-4	-4	5	4	4	4	-4	6	-2	2	5	3	-6
Supplier delivery time	12	11	13	8	6	2	4	5	2	3	14	6	8
Inventories: Materials	-1	-3	5	2	-1	2	-2	10	-6	-4	5	0	8
Inventories: Finished goods	-3	1	4	-2	-1	-2	-11	3	-1	-10	3	-1	9