



NEWS RELEASE

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CONTACT: Pam Campbell

(405) 270-8617

Pam.Campbell@kc.frb.org

Tenth District Manufacturing Activity Increased at a Slower 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 increased at a slower pace in September and remained lower than a year ago, while expectations for future activity were positive.

“Regional factory activity expanded again in September but was still below year-ago levels for the majority of firms,” said Wilkerson. “Firms’ expectations for future activity continued to be relatively optimistic, although they anticipated slightly lower wage and salary growth in the year ahead.”

Historical data, 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 increased at a slower pace in September and remained lower than a year ago, while expectations for future activity were positive (Chart 1, Tables 1 & 2). Prices paid for raw materials and finished goods rose further. District firms expected prices for both raw materials and finished goods to grow in the next six months.

Factory Activity Increased at a Slower Pace

The month-over-month composite index was 11 in September, slightly lower than 14 in August but higher than 3 in July (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Activity at non-durable and durable goods factories expanded at a similar pace. The increase in activity at food and beverage manufacturers was slower in September than in previous months, when activity bounced back more sharply. Most month-over-month indexes remained positive, indicating continued expansion. Production, shipments, new orders, and employment rose at a slower pace, while order backlog and supplier delivery time increased. The indexes for employee workweek and new orders for exports dipped slightly, and inventory indexes for materials and finished goods were negative. Most year-over-year factory indexes remained negative in September, and the composite index declined from -19 to -21. The future composite index was still positive in September at 18, similar to expectations in August.

Special Questions

This month contacts were asked special questions about wages for workers that were furloughed and then rehired, in addition to questions about expected wage growth and business plans. For factories that furloughed workers, most contacts indicated that wages for rehired/returned employees were the same as before workers were furloughed (Chart 2). However, 71% of contacts reported they did not furlough workers. Overall, firms anticipated slightly lower wage and salary growth in the year ahead. Specifically, 36% of firms thought wage and salary growth would be lower than in the previous year, while 28% said it would be higher. In the next six months, more than 60% of firms expected to identify and hire new employees and/or increase marketing or sales (Chart 3). Around one-third of contacts also expected to identify new supply chain options and/or develop online sales or websites. More than 20% of firms noted they would need to obtain financial assistance or additional capital.

Selected Manufacturing Comments

“Reduction of workforce has allowed us to make higher demands of remaining workers and then pay them more from the proceeds of attrition.”

“We saw some significant increases in wages that we do not expect to be repeated in the coming year.”

“Sales are at rock bottom, no overtime required. We have taken reduction in salary of 20%.”

“Furloughs just occurring now. Wages will be the same per collective bargaining agreement.”

“Extreme shortage of employees. Wages continue to increase.”

“It is extremely difficult to find enough employees! Not just here, but at all of our locations, and this is for all level of employees: entry level/operations level/skilled level.”

“CARES unemployment bonus is killing us. In 20 years, it's never been harder to hire entry level manufacturing employees because they make more staying home. It's constraining our growth and forcing us to subcontract work because we can't process in-house what we normally do.”

“We continue to see reasonable activity but some increased difficulty in the new order generation. We are producing and shipping at high levels with confidence that we will be able to obtain the orders in future periods to maintain an active pace. While we see some market pressures around compensation, they are not highly inflationary.”

“Requests for quotes are slowly increasing but the workload is still low compared to previous years.”

“We have some good work in the pipeline, however we may not have capital to fund the work due to expenditures during the COVID-19 downturn. Really would benefit from an additional PPP loan.”

“As of now, it appears there will be more sales in late Q4, which will increase the need for production employees. While the company has avoided furloughs and layoffs so far, positions open from terminations, retirements, etc., have not been filled due to lower demand.”

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

Plant Level Indicators	September vs. August (percent)*				September vs. Year Ago (percent)*				Expected in Six Months (percent)*					
	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}	Increase	No Change	Decrease	Diff Index [^]	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}
Composite Index				11	11				-21				17	18
Production	41	42	17	23	18	28	14	58	-31	48	26	26	23	25
Volume of shipments	37	43	20	16	9	29	14	57	-29	49	27	24	26	27
Volume of new orders	42	37	21	20	23	26	19	55	-30	47	27	26	22	23
Backlog of orders	36	37	28	8	13	27	23	50	-23	35	40	25	10	13
Number of employees	26	54	20	5	7	23	23	53	-30	35	46	19	16	19
Average employee workweek	16	67	16	0	-1	17	42	41	-23	26	58	16	9	11
Prices received for finished product	17	79	4	13	12	35	43	22	12	36	60	4	32	34
Prices paid for raw materials	28	66	6	21	24	47	28	26	21	43	46	10	33	33
Capital expenditures						31	35	35	-4	31	40	30	1	3
New orders for exports	11	76	13	-2	-4	10	64	26	-16	16	73	11	5	6
Supplier delivery time	21	69	9	12	13	35	40	26	9	22	69	9	12	13
Inventories: Materials	19	56	26	-7	-6	23	31	46	-24	38	38	25	13	11
Inventories: Finished goods	18	58	24	-6	-3	23	34	43	-20	28	52	20	7	7

*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 September survey was open for a five-day period from September 16-21, 2020 and included 98 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Indexes

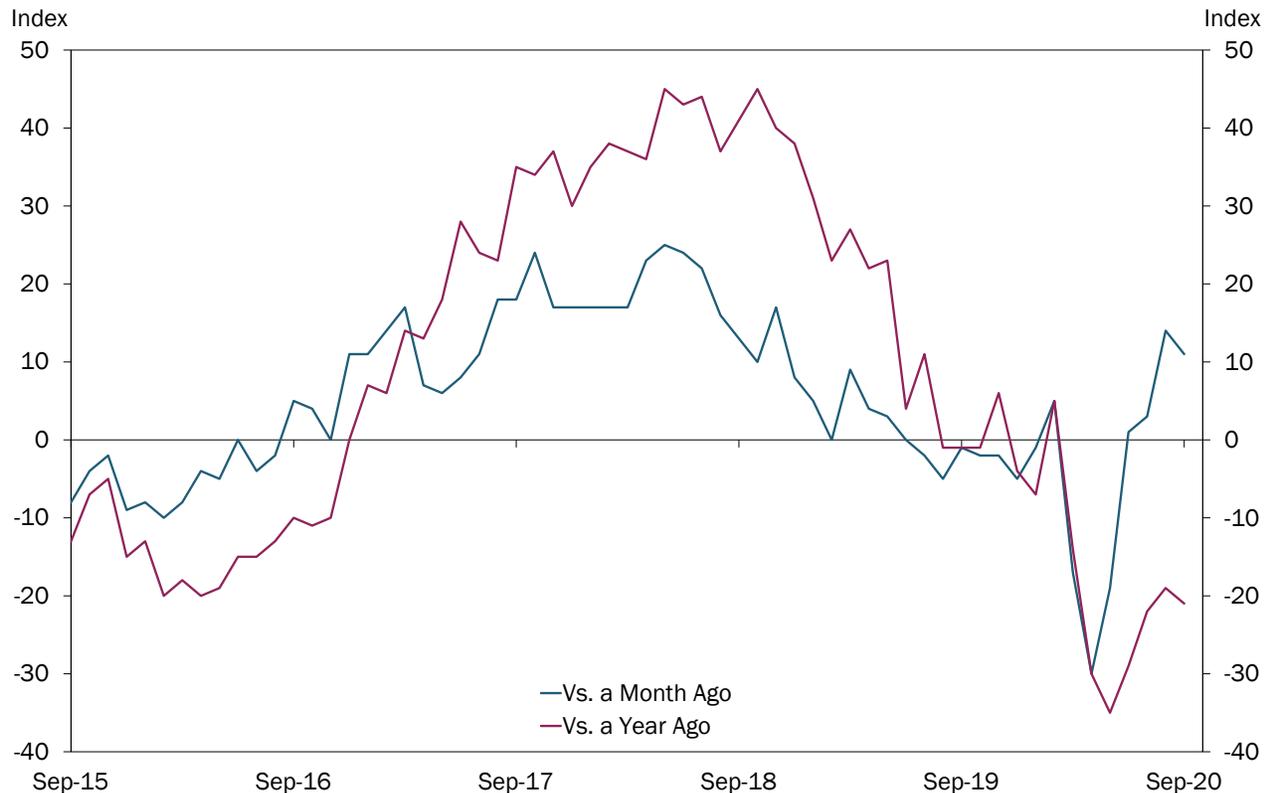


Chart 2. Special Question: For any workers that were furloughed and then rehired/returned, please comment on the wage levels of returning workers:

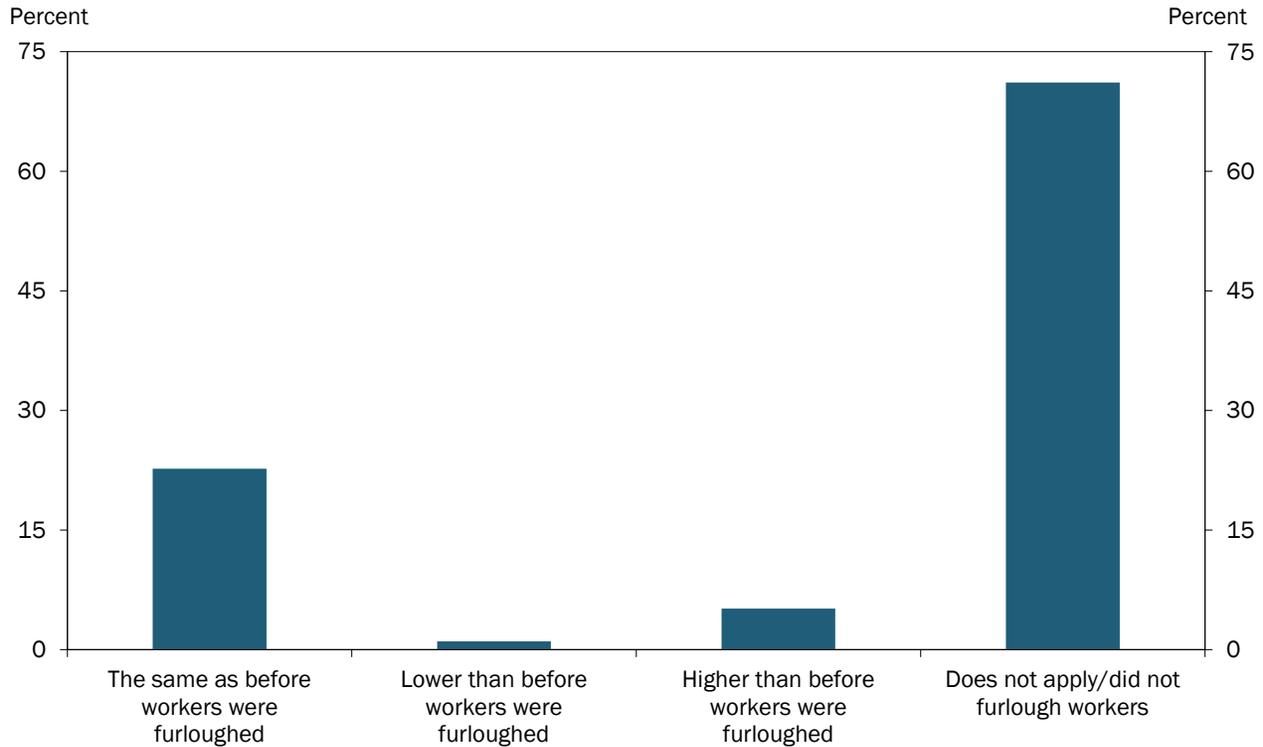


Chart 3. Special Question: In the next 6 months, do you think your firm will need to do any of the following?

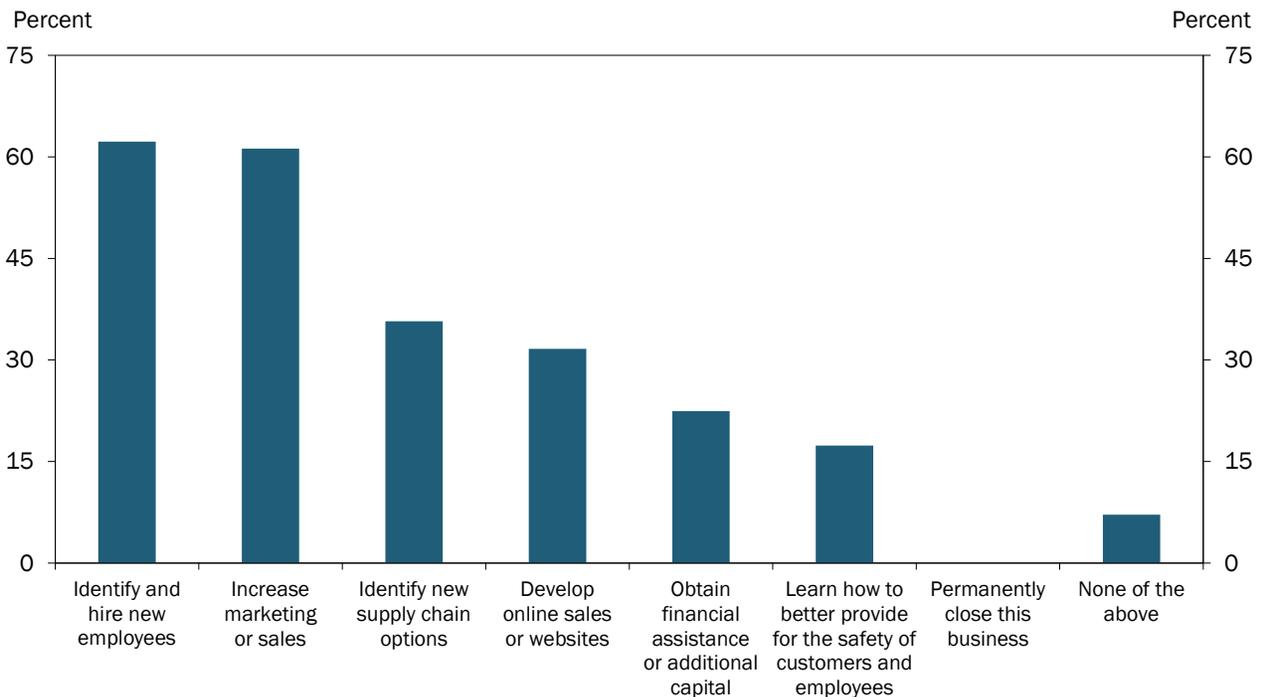


Table 2
Historical Manufacturing Survey Indexes

	Sep'19	Oct'19	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Sep'20
Versus a Month Ago (seasonally adjusted)													
Composite Index	-1	-2	-2	-5	-1	5	-17	-30	-19	1	3	14	11
Production	9	7	-2	-3	-4	8	-18	-62	-25	2	7	23	18
Volume of shipments	6	1	4	-3	-4	9	-23	-57	-22	8	11	19	9
Volume of new orders	-2	-9	-4	-13	-2	8	-38	-64	-25	7	9	26	23
Backlog of orders	-16	-12	-8	-14	-20	-16	-41	-54	-32	-24	2	3	13
Number of employees	-10	-5	-7	-7	4	-4	-32	-34	-13	-6	3	9	7
Average employee workweek	8	3	-3	-4	-3	-2	-15	-51	-20	0	6	4	-1
Prices received for finished product	2	4	3	-2	-3	9	-6	-14	-9	7	6	4	12
Prices paid for raw materials	-4	1	10	13	28	14	-13	-16	-6	1	3	17	24
Capital expenditures	n/a												
New orders for exports	-3	-5	-4	-8	-4	5	-18	-29	-25	-8	-10	1	-4
Supplier delivery time	2	3	9	4	3	11	13	26	-8	8	3	8	13
Inventories: Materials	-5	-5	-7	-6	-8	2	-12	-14	-24	-4	-8	5	-6
Inventories: Finished goods	-7	-1	-3	-6	-6	7	-16	-16	-11	-5	-14	-8	-3
Versus a Year Ago (not seasonally adjusted)													
Composite Index	-1	-1	6	-4	-7	5	-14	-30	-35	-29	-22	-19	-21
Production	-6	-3	6	-5	-11	-5	-19	-63	-58	-48	-36	-34	-31
Volume of shipments	6	-6	13	-7	-10	4	-25	-61	-60	-47	-39	-28	-29
Volume of new orders	-1	-10	0	-14	-20	6	-31	-54	-55	-53	-33	-25	-30
Backlog of orders	-16	-6	-5	-17	-24	-16	-33	-49	-46	-47	-27	-26	-23
Number of employees	7	7	10	7	1	12	-14	-32	-31	-31	-23	-27	-30
Average employee workweek	6	3	3	-3	-12	-6	-21	-50	-43	-37	-20	-22	-23
Prices received for finished product	33	36	29	27	22	28	13	3	-2	4	6	6	12
Prices paid for raw materials	26	26	25	36	26	31	14	0	4	0	6	6	21
Capital expenditures	22	13	24	15	5	15	-15	-42	-34	-23	-17	-11	-4
New orders for exports	-8	-1	-1	-9	-9	-3	-8	-27	-28	-27	-26	-8	-16
Supplier delivery time	2	2	6	5	0	11	5	16	-6	7	5	2	9
Inventories: Materials	-8	0	9	-10	-6	0	-9	-15	-23	-21	-21	-11	-24
Inventories: Finished goods	-1	-1	13	-9	-3	-1	-19	-15	-22	-13	-23	-23	-20
Expected in Six Months (seasonally adjusted)													
Composite Index	6	4	16	9	14	16	-19	-6	-2	9	14	19	18
Production	7	5	27	14	23	21	-36	-8	-2	14	25	20	25
Volume of shipments	7	5	27	11	25	24	-37	-8	-1	12	21	19	27
Volume of new orders	13	11	28	16	9	21	-35	-8	7	16	20	21	23
Backlog of orders	-10	-13	1	-4	4	-2	-38	-6	-5	-5	5	3	13
Number of employees	14	6	7	9	20	20	-19	-10	-4	8	11	26	19
Average employee workweek	-1	3	12	-4	0	8	-20	-3	-3	6	10	4	11
Prices received for finished product	18	18	17	13	20	28	-10	2	-5	13	13	16	34
Prices paid for raw materials	31	25	31	36	35	37	-8	4	17	17	17	31	33
Capital expenditures	9	6	17	8	8	7	-41	-30	-19	-3	-5	4	3
New orders for exports	-2	2	5	3	-6	6	-17	-9	-7	-10	-10	-1	6
Supplier delivery time	2	3	14	6	8	15	8	8	-7	8	9	7	13
Inventories: Materials	-6	-4	5	0	8	5	-11	-9	-3	-1	5	21	11
Inventories: Finished goods	-1	-10	3	-1	9	1	-28	-14	-3	1	5	1	7