

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

1 Memorial Drive • Kansas City, MO 64198 • Phone: 816.881.2683

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CONTACT: Pam Campbell
405-270-8617
Pam.Campbell@kc.frb.org

TENTH DISTRICT MANUFACTURING ACTIVITY EXPANDED MODERATELY *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 expanded again at a moderate pace.

“This was the second consecutive month of rising factory activity in the Tenth District, the first time that has happened in nearly two years,” said Wilkerson. “Much of the improvement recently has been in machinery and fabricated metals manufacturing.”

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 expanded again at a moderate pace, and producers' expectations for future activity increased further. The price indexes were mixed, but mostly little changed.

The month-over-month composite index was 6 in October, equal to 6 in September and up from -4 in August (Tables 1 & 2, Chart). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The increase was mostly attributable to continued strength in metals, machinery, and chemical production. Most month-over-month indexes improved further in October. The production index edged higher from 15 to 18, and the shipments, new orders, and order backlog also rose moderately. The employment index climbed from -3 to 7, its highest level in almost two years. The raw materials inventory index dropped from 8 to -11, and the finished goods inventory index also fell substantially.

Most year-over-year factory indexes remained below zero. The composite year-over-year index inched lower from -9 to -11, and the production, shipments, and new orders for exports indexes also fell. The new orders, order backlog, and employment indexes were slightly higher but still in negative territory. The capital expenditures index decreased modestly from -4 to -7, after rising last month. The raw materials inventory index fell from -4 to -19, and the finished goods inventory index also moved lower.

Most future factory indexes increased in October. The future composite index rose from 10 to 18, its highest level in over a year, and the future production, shipments, and employment indexes also increased considerably. However, the future new orders and order backlog indexes moved lower but remained positive. The future capital spending index moderated from 14 to 8, and the future new orders for exports index also eased. The future raw materials inventory index jumped from -7 to 13, and the future finished goods index rose from -5 to 7.

Price indexes remained mixed in October, with mostly little change. The month-over-month finished goods price index edged higher from -7 to -5, while the raw materials price index edged lower again. The year-over-year finished goods price index moved back into positive territory, and the raw materials price index jumped from -2 to 14. The future finished goods price index was basically unchanged, while the future raw materials price index decreased from 26 to 19.

SELECTED COMMENTS

“Another large health insurance increase and a large increase in local taxes will force us to raise prices, but material and wage costs have been stable. Excess capacity in our industry caps how much we can increase our prices.”

“The prices for live fat cattle have declined, allowing us to lower our prices; however the retailers are reluctant to reduce their prices as much as the packers are.”

“There have been stronger bookings and shipments than budgeted. A great surprise and it continues into October.”

“Unemployment numbers in our area are very low. We have a need to hire 10-15 people but can't find stable associates that are interested in working.”

“New oil exploration and production is appearing on the horizon. New orders hopefully will follow.”

“The international marketplace is still weak and we are struggling with low priced Chinese goods.”

“We are just now beginning to see the impact of the steel tariffs imposed earlier this year. Our competition is beginning to publicize price increases and we are looking at how that will play out in what appears to be a softening market.”

“International business has been down for the past two years and primarily offset by increase in the U.S. market.”

“Fourth quarter is shaping up nicely. It is always the best quarter of the year for us. Skilled labor is still a challenge for us.”

Table 1
Summary of Tenth District Manufacturing Conditions, October 2016

Plant Level Indicators	October vs. September (percent)*					October vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	Change	Decrease	Diff	SA	Increase	Change	Decrease	Diff	Increase	Change	Decrease	Diff	SA
				Index^	Index**^				Index^				Index**^	
Composite Index				3	6				-11				16	18
Production	33	48	19	14	18	27	30	43	-16	48	36	16	32	32
Volume of shipments	34	45	19	15	20	24	30	44	-20	49	33	17	32	32
Volume of new orders	35	36	26	9	14	32	28	35	-3	36	39	23	14	16
Backlog of orders	27	42	25	2	4	26	31	34	-8	30	38	26	3	5
Number of employees	19	65	16	3	7	32	23	45	-14	39	41	19	19	21
Average employee workweek	20	66	14	7	8	18	51	30	-11	17	63	17	0	4
Prices received for finished product	7	81	11	-5	-5	27	47	26	1	22	60	15	7	8
Prices paid for raw materials	13	75	11	1	0	38	38	24	14	32	57	9	23	19
Capital expenditures						26	39	33	-7	25	57	15	10	8
New orders for exports	9	70	10	-1	3	13	56	23	-10	17	57	16	1	1
Supplier delivery time	7	88	3	3	3	10	77	11	-1	10	82	6	5	6
Inventories: Materials	16	55	28	-12	-11	19	42	39	-19	26	57	16	10	13
Inventories: Finished goods	11	60	23	-11	-9	17	44	33	-16	20	60	15	6	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-12.

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

Composite Index vs. a Month Ago

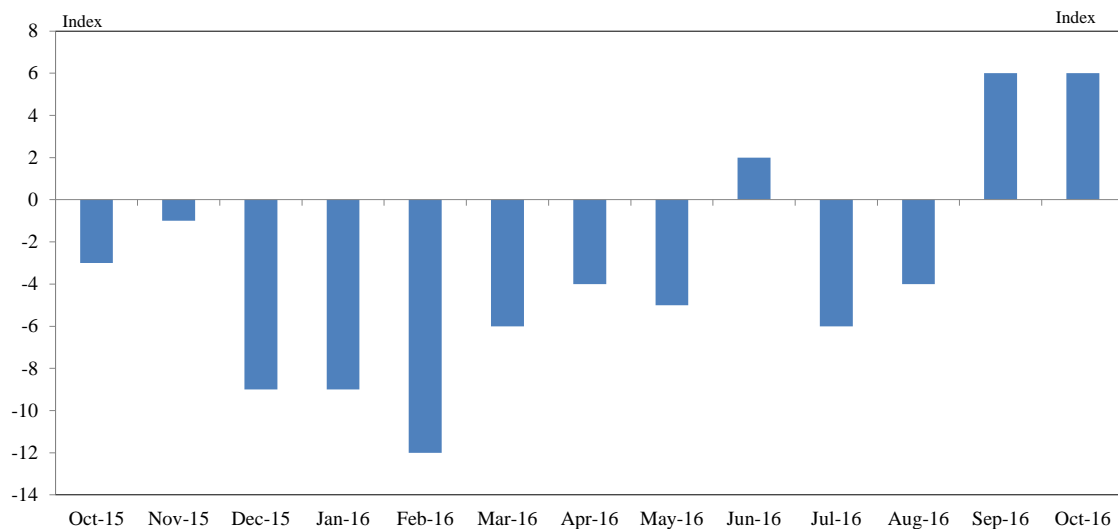


Table2
Historical Manufacturing Survey Indexes

	Oct'15	Nov'15	Dec'15	Jan'16	Feb'16	Mar'16	Apr'16	May'16	Jun'16	Jul'16	Aug'16	Sep'16	Oct'16
Versus a Month Ago (seasonally adjusted)													
Composite Index	-3	-1	-9	-9	-12	-6	-4	-5	2	-6	-4	6	6
Production	1	0	-8	-8	-8	-14	-8	-11	12	-15	-7	15	18
Volume of shipments	-3	2	-7	-7	-11	-15	-6	-6	10	-17	-4	16	20
Volume of new orders	3	1	-6	-27	-15	-2	-2	-3	4	-5	-7	12	14
Backlog of orders	-7	-22	-4	-36	-17	-15	-18	-19	-3	-3	-4	0	4
Number of employees	-5	-9	-19	-7	-20	-12	-12	-13	-4	-5	-10	-3	7
Average employee workweek	-6	-1	-4	-7	-14	-13	-9	-15	1	7	4	5	8
Prices received for finished product	-4	-8	-7	-15	-17	-10	-6	-8	-4	-11	-7	-7	-5
Prices paid for raw materials	-3	-7	-13	-14	-11	-10	4	13	12	10	7	2	0
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	-7	4	-1	1	-6	-10	-4	-8	-1	-7	-10	-4	3
Supplier delivery time	-1	0	2	-2	0	-1	1	4	2	3	3	-3	3
Inventories: Materials	-11	3	-15	-2	-16	-2	0	-3	-3	-7	-1	8	-11
Inventories: Finished goods	-7	-5	-17	-9	-14	0	-11	-12	-5	5	-2	0	-9
Versus a Year Ago (not seasonally adjusted)													
Composite Index	-7	-5	-15	-13	-20	-18	-19	-19	-15	-15	-12	-9	-11
Production	-11	-13	-20	-15	-18	-24	-20	-31	-20	-22	-22	-10	-16
Volume of shipments	-15	-6	-19	-11	-21	-22	-20	-26	-21	-28	-21	-10	-20
Volume of new orders	-14	-7	-19	-18	-30	-18	-26	-24	-18	-22	-14	-13	-3
Backlog of orders	-25	-14	-30	-32	-30	-26	-32	-36	-26	-26	-18	-18	-8
Number of employees	-2	-8	-14	-15	-26	-20	-22	-23	-16	-12	-15	-15	-14
Average employee workweek	-13	-12	-10	-11	-19	-19	-21	-24	-14	-13	-11	-4	-11
Prices received for finished product	13	6	1	-4	-10	-4	-1	-4	8	12	1	-3	1
Prices paid for raw materials	13	13	7	-8	-20	-8	-8	-1	16	7	-4	-2	14
Capital expenditures	12	7	-4	-9	-10	-19	-18	-15	-3	-14	-13	-4	-7
New orders for exports	-13	-12	-15	-4	-13	-13	-19	-15	-13	-13	-13	-8	-10
Supplier delivery time	-4	0	-6	0	-6	-14	-8	-4	0	-3	-1	-5	-1
Inventories: Materials	-5	4	-14	-16	-18	-12	-21	-15	-22	-14	-10	-4	-19
Inventories: Finished goods	-10	-5	-21	-23	-23	-14	-24	-20	-18	-5	-14	-7	-16
Expected in Six Months (seasonally adjusted)													
Composite Index	0	6	6	5	4	-2	10	4	7	14	11	10	18
Production	6	10	19	14	16	5	25	15	15	25	17	15	32
Volume of shipments	6	10	14	18	20	5	27	9	7	18	17	17	32
Volume of new orders	8	17	14	13	15	0	20	15	12	30	23	24	16
Backlog of orders	-1	-1	4	-2	-6	-10	-1	-6	5	16	11	11	5
Number of employees	6	9	3	5	3	1	8	-4	13	6	12	14	21
Average employee workweek	0	0	4	-8	1	3	8	-2	-2	7	0	7	4
Prices received for finished product	10	3	0	-6	-2	1	2	-1	5	13	17	7	8
Prices paid for raw materials	14	21	14	-4	6	5	9	9	9	17	17	26	19
Capital expenditures	-8	11	5	-1	-9	-9	-6	-3	8	3	5	14	8
New orders for exports	-1	-2	1	2	-1	0	1	-3	0	1	1	6	1
Supplier delivery time	-2	3	0	-2	-2	-1	1	-3	4	4	7	5	6
Inventories: Materials	-18	-10	-8	-6	-10	-13	-5	-4	-7	4	-4	-7	13
Inventories: Finished goods	-10	-5	-9	-13	-21	-10	-13	-8	-11	3	-8	-5	7