

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING ACTIVITY DECLINED FURTHER *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 Tenth District manufacturing activity declined further in December, though by smaller amount than in October or November. Factories' production expectations were somewhat more optimistic than last month, but a higher share of firms plan to decrease employment in coming months.

“We saw factory activity decline for the third straight month, which many firms blamed on the uncertainty created by the fiscal cliff talks, said Wilkerson. Contacts still plan modest output expansion in the first half of 2012, but they now expect their employment to fall, before recovering later in the year.”

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

Tenth District manufacturing activity declined further in December, though by a smaller amount than in October or November. Factories' production expectations were somewhat more optimistic than last month, but a higher share of firms plan to decrease employment in coming months. Approximately half of all contacts cited fiscal policy uncertainty as having impacted their hiring decisions. Price indexes mostly increased, particularly for future raw materials, with the increase driven heavily by food prices.

The month-over-month composite index was -2 in December, up slightly from -6 in November and -4 in October (Tables 1 & 2, Chart). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Manufacturing activity was stable at most durable goods-producing plants, while nondurable producers cited further declines. Most other month-over-month indexes also edged up slightly in December but remained below zero. The production index inched higher from -6 to -5, and the new orders, order backlog, and new orders for exports indexes also rose but remained negative. In contrast, the employment and shipments indexes fell after rising last month. The raw materials inventory index increased from -7 to 1, but the finished goods inventory index decreased into negative territory.

Most year-over-year factory indexes fell from the previous month, with several indexes at their lowest levels since early 2010. The composite year-over-year index eased from 9 to 7, and the production, shipments, and new orders indexes all posted three-year lows. The employment index decreased from 22 to 13 after rebounding solidly last month. The order backlog index was unchanged, while the capital expenditures and new orders for exports indexes inched higher. Both inventory indexes increased for the second straight month.

The majority of future factory indexes edged slightly higher this month, with most indexes still in positive territory. The future composite index rose from 3 to 4, and the future production, shipments, and new orders indexes also increased. On the other hand, the future employment index decreased for the third straight month to its lowest level since July 2009. The future capital expenditures index fell from 8 to 3, and the future order backlog index also moderated slightly. The future raw materials inventory index declined from 2 to -3, and the finished goods inventory index also decreased. Many firms blamed fiscal uncertainty for their still modest expectations.

Most price indexes increased from the previous month. The month-over-month finished goods price index rose from 3 to 7, and the raw materials price index increased after falling last month. The year-over-year raw materials index was slightly lower, but the finished goods index rose from 28 to 35. The future raw materials price jumped from 41 to 59, and the future finished goods price index edged up, indicating more firms plan to pass recent cost increases through to customers.

SELECTED COMMENTS

“Due to uncertainty relating to 2013 tax rates, we have decided to decrease hiring plans.”

“There is uncertainty about how capital equipment expenses will be taxed and uncertainty about how oil and gas exploration taxes will be changed, thus reducing demand for products used in drilling and production.”

“We import some components used in our products and the weak dollar has raised our costs significantly.”

“Increases in insurance costs and uncertainty on taxes certainly increase our caution in adding to the payroll at this time.”

“We do not feel that we have a handle on all the costs involved in health care and the impact of tax increases. Before we can hire anyone else, we need to make sure we can handle the people we have, cash-flow wise.”

“The uncertainty has stunted investment from our customer base on capital expenditures where are products are sold and used. Thus, lower bookings, lower sales, and lower employment.”

“Seeing strong cost increases in qualified craft labor, engineers, and professional management.”

“Lack of clarity is discouraging. We cannot anticipate the effects of taxes, insurance, and other fiscal policy so we need to conserve cash.”

“We believe fiscal uncertainties have kept potential buyers (corporate and private individuals) from purchasing new aircraft, and the current economic climate has kept existing fleet owners from flying as much, thus lower demand for our products and no need for additional hiring.”

Table 1
Summary of Tenth District Manufacturing Conditions, December 2012

Plant Level Indicators	December vs. November (percent)*					December vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{**^}	Increase	Change	Decrease	Diff Index [^]	Increase	Change	Decrease	Diff Index [^]	SA Index ^{**^}
Composite Index				-9	-2				7				7	4
Production	23	38	39	-16	-5	35	26	37	-3	45	28	25	21	11
Volume of shipments	23	35	41	-18	-8	38	26	34	5	46	25	26	20	15
Volume of new orders	23	37	40	-17	-8	35	30	33	2	41	29	27	14	14
Backlog of orders	16	39	44	-27	-19	25	41	32	-7	29	43	25	5	2
Number of employees	10	71	18	-8	-3	36	37	24	13	24	51	23	1	-6
Average employee workweek	8	70	22	-14	-11	15	58	24	-8	18	59	21	-3	-7
Prices received for finished product	12	79	8	4	7	45	41	11	35	38	52	7	31	26
Prices paid for raw materials	27	69	4	24	34	65	26	8	56	63	34	2	61	59
Capital expenditures						41	36	21	20	29	50	19	10	3
New orders for exports	7	73	12	-5	-1	13	63	16	-4	13	64	15	-2	-4
Supplier delivery time	5	90	3	3	3	15	77	5	9	9	85	4	5	4
Inventories:														
Materials	20	55	25	-5	1	35	43	21	14	22	48	27	-5	-3
Finished goods	20	56	22	-2	-1	32	50	15	17	20	54	23	-3	-4

*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 110 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

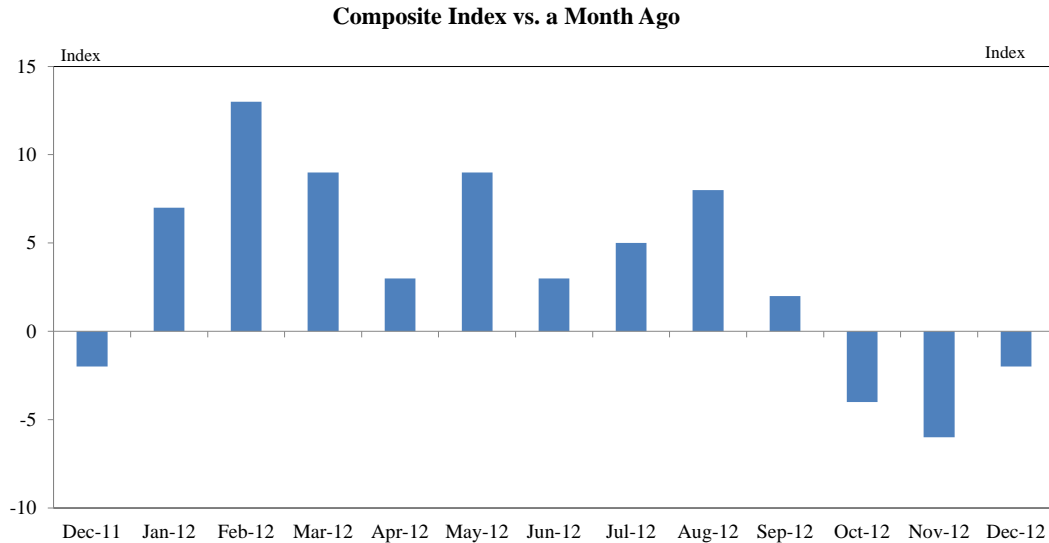


Table2
Historical Manufacturing Survey Indexes

	Dec'11	Jan'12	Feb'12	Mar'12	Apr'12	May'12	Jun'12	Jul'12	Aug'12	Sep'12	Oct'12	Nov'12	Dec'12
Versus a Month Ago (seasonally adjusted)													
Composite Index	-2	7	13	9	3	9	3	5	8	2	-4	-6	-2
Production	-6	13	20	13	0	17	12	2	7	-4	-6	-6	-5
Volume of shipments	-7	13	8	17	3	16	12	-3	12	-8	-6	-3	-8
Volume of new orders	-2	9	8	17	-8	10	-7	-4	11	-2	-11	-14	-8
Backlog of orders	-11	8	13	3	-5	-3	-18	-10	4	-7	-15	-25	-19
Number of employees	-5	9	11	12	12	8	3	6	2	1	-6	0	-3
Average employee workweek	-9	0	-3	2	-10	-2	-4	-3	-5	-13	-11	-6	-11
Prices received for finished product	4	13	11	3	7	0	-4	0	0	5	8	3	7
Prices paid for raw materials	27	42	36	33	19	11	7	18	26	30	27	23	34
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	-1	10	-7	0	1	3	-7	-13	-6	-4	-7	-6	-1
Supplier delivery time	8	8	10	4	4	10	4	6	6	8	3	-2	3
Inventories: Materials	-7	-4	14	0	5	1	5	13	16	7	2	-7	1
Inventories: Finished goods	0	0	6	15	-3	2	-2	9	13	3	3	9	-1
Versus a Year Ago (not seasonally adjusted)													
Composite Index	11	15	21	24	24	27	24	20	18	11	11	9	7
Production	19	16	28	31	30	38	32	19	25	12	17	4	-3
Volume of shipments	18	13	30	37	35	35	35	18	22	16	22	11	5
Volume of new orders	10	17	28	33	28	32	32	23	16	6	10	4	2
Backlog of orders	0	13	24	20	20	32	20	10	14	-4	1	-7	-7
Number of employees	16	11	17	23	31	28	25	18	20	17	12	22	13
Average employee workweek	11	2	6	4	10	7	7	2	1	5	-2	-8	-8
Prices received for finished product	34	38	35	35	41	34	19	35	35	35	30	28	35
Prices paid for raw materials	64	67	57	71	74	66	60	50	49	60	60	58	56
Capital expenditures	17	8	12	15	18	21	21	23	21	17	18	19	20
New orders for exports	11	12	5	6	-2	9	4	2	2	-4	-2	-5	-4
Supplier delivery time	10	10	13	9	7	14	12	12	10	7	10	7	9
Inventories: Materials	0	19	19	22	25	23	17	26	16	11	5	8	14
Inventories: Finished goods	10	11	20	13	17	16	11	16	19	12	10	11	17
Expected in Six Months (seasonally adjusted)													
Composite Index	12	12	20	18	12	17	8	13	16	16	3	3	4
Production	15	28	35	31	26	40	22	22	31	29	9	9	11
Volume of shipments	25	23	37	31	22	40	20	20	30	31	10	10	15
Volume of new orders	25	18	34	34	23	29	12	22	21	24	8	9	14
Backlog of orders	4	9	24	13	8	11	-1	3	14	20	-2	4	2
Number of employees	10	18	23	23	15	18	13	16	16	16	4	0	-6
Average employee workweek	2	1	3	7	-6	6	-2	-2	2	4	-3	-8	-7
Prices received for finished product	19	28	32	28	16	22	12	25	32	29	23	19	26
Prices paid for raw materials	47	64	54	65	54	48	40	50	44	49	53	41	59
Capital expenditures	13	22	18	20	6	19	17	20	18	11	16	8	3
New orders for exports	8	15	10	8	5	10	4	6	3	3	-1	-2	-4
Supplier delivery time	5	8	11	7	1	0	4	5	12	5	1	-5	4
Inventories: Materials	6	-10	0	-5	-8	0	-11	-1	2	9	-5	2	-3
Inventories: Finished goods	2	-10	4	6	-4	-3	-8	5	10	6	-8	0	-4