



NEWS RELEASE

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Tenth District Manufacturing Activity Rose Again
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 rose again in October but remained lower than a year ago, while expectations for future activity continued to expand.

“Regional factory activity expanded in October but remained below year-ago levels for over half of firms,” said Wilkerson. “While 55% of firms reported that employment was at or above pre-COVID levels, most expected that sales and capital spending would not return to pre-COVID levels in the immediate future.”

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 rose again in October but remained lower than a year ago, while expectations for future activity continued to expand (Chart 1, Tables 1 & 2). Prices paid for raw materials grew at a faster pace and prices received for finished goods inched up from a month ago. District firms expected prices for both raw materials and finished goods to increase in the next six months.

Factory Activity Rose Again

The month-over-month composite index was 13 in October, up slightly from 11 in September and similar to 14 in August (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 was faster at fabricated metal and machinery plants in October. Nearly all of the month-over-month indexes remained positive, indicating continued expansion. Production, shipments, new orders, employment, and employee workweek indexes rose faster than in September, but order backlog and supplier delivery time increased at a slower pace. The indexes for new orders for exports and materials inventories inched higher, while finished goods inventories declined slightly. Most year-over-year factory indexes remained negative in October but less so than last month, as the composite index moved from -21 to -12. The future composite index expanded further in October, increasing from 18 to 21.

Special Questions

This month contacts were asked special questions about how business indicators compare to pre-COVID levels, as well as expectations for post-COVID. More than 55% of firms indicated employment levels were already even with or exceeding pre-COVID levels, but around 15% didn't expect employment to fully rebound until 2022 or 2023 (Chart 2). Only 35% of firms said sales and revenue levels were at or above pre-COVID levels, though a significant share expected sales to rise in the next year. 41% of firms reported capital spending was at pre-COVID levels, while more than 30% didn't expect it to match pre-COVID levels until 2022 or 2023. Additionally, firms were asked about long-term business changes after the risks from the pandemic dissipate (Chart 3). Nearly 56% of contacts expected less travel, while over 30% expected to increase their labor force and diversify suppliers. Another one-third of firms expected continual workforce health screenings, and at least a quarter of firms expected permanent scheduling changes or work-from home policies for at least some staff.

Selected Manufacturing Comments

“Our year ends in October and we are on track to have one of our best year's in our history. Not in the way we planned, but we are very fortunate.”

“Orders continue to break records. We are not sure why there has been such large demand but are overwhelmed at the current level of new orders.”

“We will look at increasing our finished goods inventory to help offset the lack of people to smooth out our production schedule.”

“Small businesses need better access to capital.”

“We are still struggling to find good employees, especially ones with higher skills and attitudes.”

“There are many unknowns with the pandemic from how we handle employees that test positive to lunch breaks. We will continue to have disruption in our workspace.”

“Really need a second round of PPP loans to keep us afloat. We kept employees on as long as possible.”

“The tariffs from China as a result of the trade war with them are making us non-competitive.”

“Capital expenditure plans have been put on hold until 2021.”

“We quite likely may have to reduce the scale of our operation in order to reduce fixed costs and other variable expenses.”

“We have learned that we can operate with less personnel and other unnecessary expenses.”

“Some of our business (+/-20%) was food service. We do not expect restaurants to return to "normal" until at least 2022.”

“Demand for lower ticket products will remain at a higher level. The pandemic will provide new opportunities in the markets we serve.”

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

Plant Level Indicators	October vs. September (percent)*					October 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				13	13				-12					22	21
Production	44	36	19	25	23	34	10	56	-23	52	31	17	35	31	
Volume of shipments	47	30	23	24	22	33	11	56	-24	52	26	22	30	26	
Volume of new orders	51	23	26	26	26	41	9	50	-9	48	31	21	27	24	
Backlog of orders	34	35	31	3	2	33	19	48	-15	36	39	25	12	9	
Number of employees	28	54	18	9	9	28	23	49	-21	39	45	15	24	22	
Average employee workweek	25	60	16	9	7	24	44	33	-9	24	62	15	9	12	
Prices received for finished product	16	74	10	6	4	40	38	22	18	37	51	12	25	26	
Prices paid for raw materials	36	58	6	29	34	51	22	27	24	56	36	7	49	55	
Capital expenditures						35	33	32	3	35	40	25	11	13	
New orders for exports	11	81	9	2	1	13	64	22	-9	15	73	12	4	5	
Supplier delivery time	19	69	12	7	7	34	45	21	13	26	57	16	10	16	
Inventories: Materials	25	46	29	-4	1	27	26	47	-20	36	41	23	13	12	
Inventories: Finished goods	18	54	28	-10	-6	26	32	42	-16	29	48	23	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-13.

Note: The October survey was open for a five-day period from October 14-19, 2020 and included 110 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Indexes

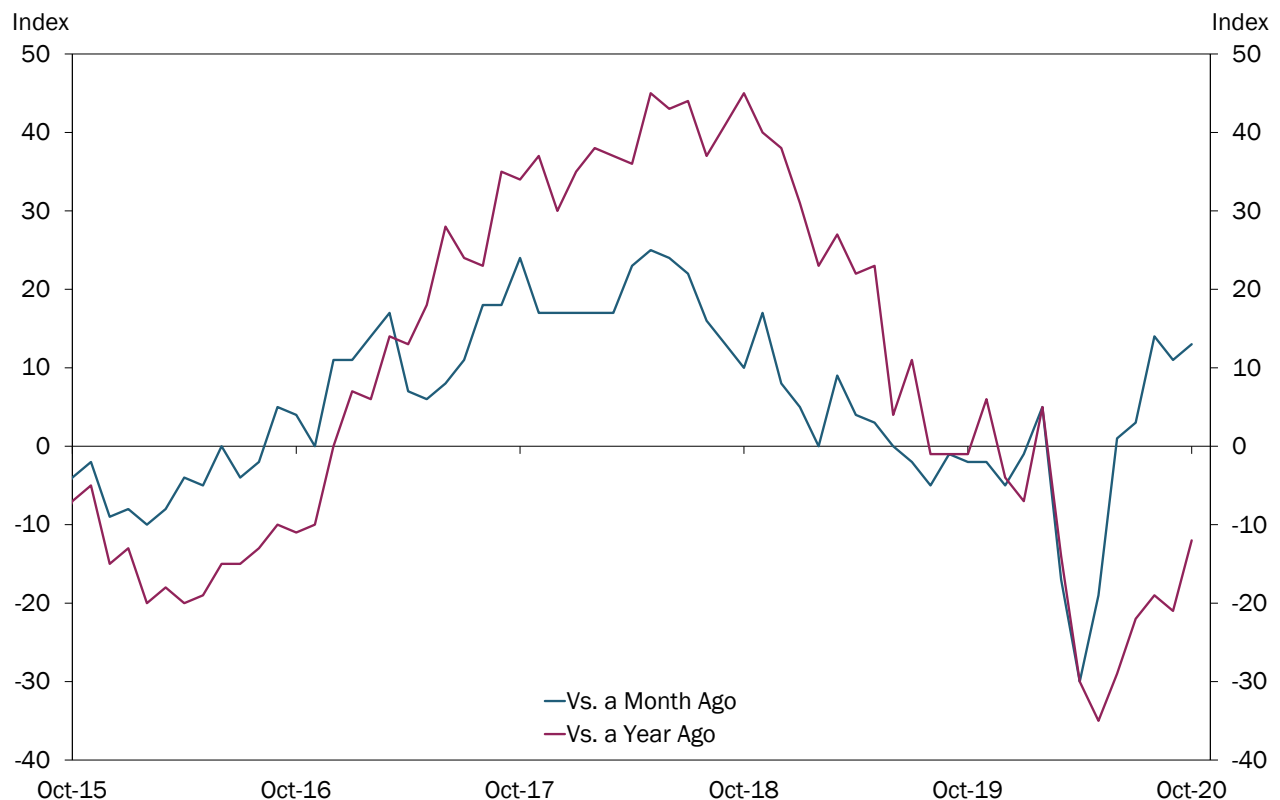


Chart 2. Special Question: When does your firm expect employment, sales/revenue, and capital spending to return to pre-COVID levels?

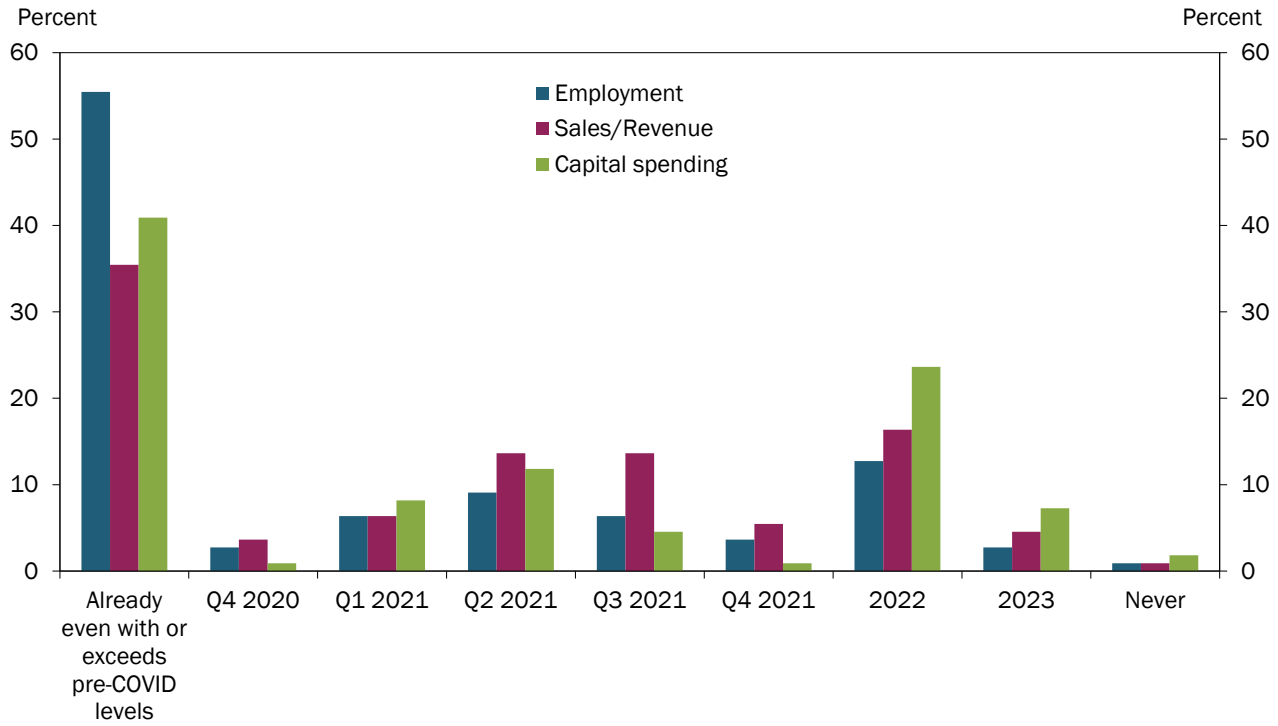


Chart 3. Special Question: What longer-term changes do you expect for your business after risks from the pandemic dissipate? (check all that apply)

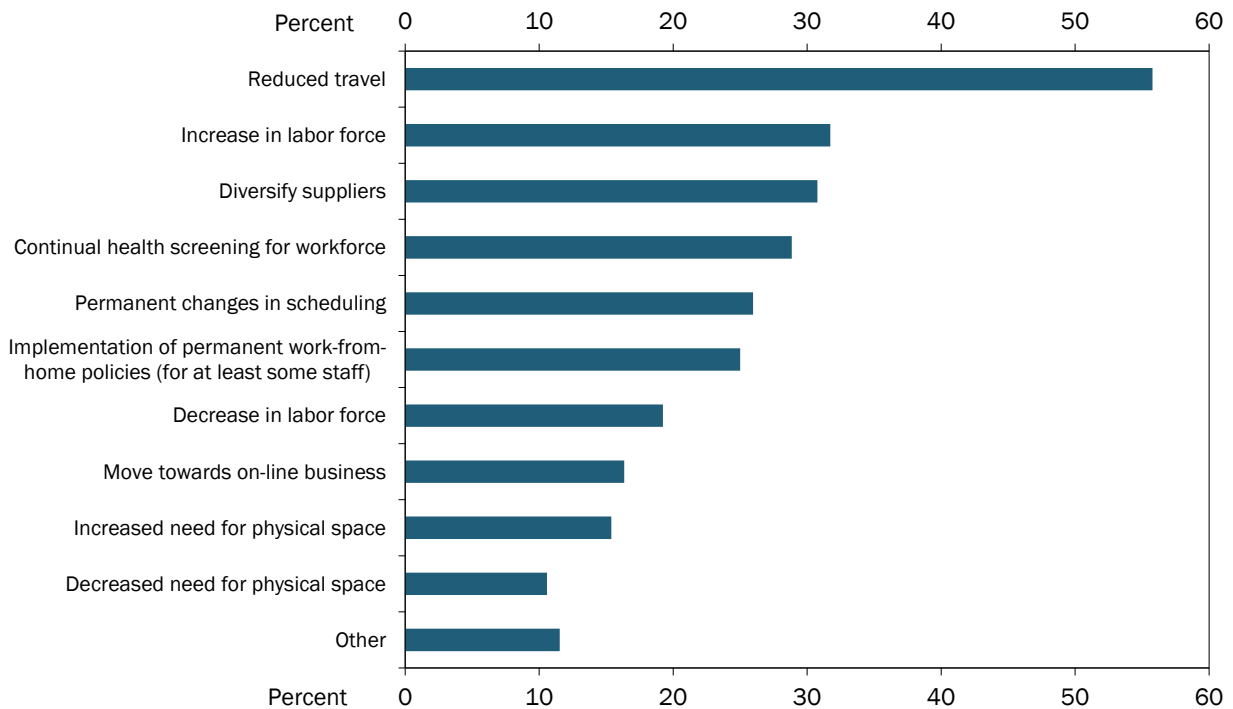


Table 2
Historical Manufacturing Survey Indexes

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