



Tenth District Manufacturing Activity Slowed in December 2018

by: Chad Wilkerson

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The month-over-month composite index was 3 in December, down from 15 in November and 8 in October (Tables 1 & 2, Chart 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The slowdown in factory growth was driven by both durable and nondurable goods producers, particularly metals, electronics, and petroleum/coal products. Most month-over-month indexes fell from the previous month's reading, although the majority remained in positive territory. Exceptions included production, dropping from 24 to -18, and shipments, falling from 31 to -3, and new orders for exports, decreasing from 6 to -7. The employment index edged slightly higher, and new orders and order backlog indexes remained moderately positive. The materials inventory index rose from 15 to 19 and the finished goods inventory index also moved up.

Most year-over-year factory indexes fell slightly from the previous month. The composite index eased from 40 to 38, and the production, shipments, and new orders indexes also decreased. The employment index edged lower from 49 to 46, while the order backlog index was relatively unchanged. The finished goods and raw materials inventory indexes both increased somewhat.

Future factory activity expectations were slightly higher overall. The future composite index increased from 16 to 20, and the future employment and capital expenditures indexes also rose moderately. On the other hand, the future production, shipments, new orders, and order backlog indexes eased modestly. The future raw materials inventory index inched higher from 3 to 6, while the future finished goods inventory index was relatively unchanged.

Price indexes were mixed in December. The month-over-month finished goods price index dropped from 23 to 2, and the raw materials price index also fell considerably. The year-over-year raw materials price index edged up from 75 to 79, while the finished goods price index eased somewhat. The future finished goods price index rose from 30 to 38, while the future raw materials price index was unchanged.

Selected Comments

“Orders roughly met expectations while our ability to produce and ship fell short of expectations. We struggle to obtain productivity comparable to the last few years. We believe it is caused by a lower quality of entry-level employee available during peak production periods. We are increasing entry-level wages materially, working with educational resources and enhancing internal training to combat the problem.”

“We were doing well this past spring until the tariffs hit. This has been really bad for both our domestic and international business. Our domestic farmers stopped spending money. Our costs went up significantly and therefore made us less competitive with our foreign competitors.”

“The business outlook for 2019 looks very good. We are taking a very measured approach on new business opportunities to make sure those opportunities fit our synergies and that we have resolved any issues with our existing business.”

“We are investing in more automation given the labor constraints.”

“Business has been good enough to allow us to consider restarting our capital expenditure program that was paused in 2015.”

“Chinese tariffs have caused our Chinese customers to reduce their order backlog and seek local suppliers. This is impacting our order level significantly.”

“Sales volume in a couple of our key accounts did not meet our projections.”

“We’ve had challenges meeting deadlines for customers due to our work load – more work than we can get completed. We have also been forced to turn away a fair amount of work.”

“Federal, state, and local infrastructure spending is lower than 2017.”

“Strong orders with increased pricing from our side has boosted our sales over our budget and forecast.”

“Activity remained strong until the election and cold weather in the Midwest. Expect a strong start to spring.”

“Our company’s plants have been running most at capacity for the year, so customers have been willing to pay higher prices for allocation of capacity.”

“Summer order activity slowed after a fairly brisk first half of the year. We have seen a slight uptick in September/October, but business is still a bit slow.”

“Demand has been higher than projected. Meeting his demand has been difficult because of labor constraints.”

“We need to update some machinery and have held off in 2018 and will do so in 2019.”

“With some softening in demand in 2019 we are forecasting a flat capital expenditures number, year over year.”

“We are using our tax reduction to make significant investments in our plants. We would move faster, but the precarious economy and lack of bipartisan support for business in the US is making us not want to move faster than our cash flow dictates.”

“With oil pricing unsteady we are on a wait and see basis.”

“The impact of tariffs have reduced our capital spending plans.”

“Not sure everything is going to be as good as we originally thought.”

“Sales are weak so we have to pull back.”

“The tariffs and increasing material costs are hurting top line performance.”

“Fall in oil prices has brought some slowdown but still optimistic.”

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Author



Chad Wilkerson

Senior Vice President and Oklahoma City Branch Executive

Chad Wilkerson serves as Oklahoma City Branch Executive and Senior Vice President of Community Development for the Federal Reserve Bank of Kansas City. Wilkerson has been with the Federal Reserve since 1998, starting in Kansas City's research department. Appointed in 2006 as Oklahoma City Branch Executive, Wilkerson is the Bank's lead officer and regional economist in Oklahoma. He recruits and works closely with the Oklahoma City Branch Board of Directors and is responsible for briefing the Kansas City Fed president, a member of the Federal Open Market Committee, on economic trends in the state. His team conducts research and surveys on key regional issues such as energy, manufacturing and migration. Wilkerson was appointed Senior Vice President in 2022, and supports a Community Development team located across the Kansas City Fed's seven-state region. This group works to understand and address issues affecting the ability of underserved communities and small businesses to access credit. Community development focus areas include financial resiliency, affordable housing, community investments, workforce development, rural development and digital inclusion. Wilkerson holds a master's degree in public policy from the University of Chicago, as well as a master's degree from Southwestern Seminary and bachelor's degree from William Jewell College. He serves on the boards of the Economic Club of Oklahoma, the United Way of Central Oklahoma and City Rescue Mission. He lives in Edmond, Oklahoma, with his wife and children.
