Tenth District Manufacturing Activity Decreased Further in December

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 decreased further in December while expectations for future activity remained positive.

“Regional factory activity declined for the sixth straight month in December, driven again by weaker activity in durable goods manufacturing,” said Wilkerson. “About half of District firms said weakening in other goods-producing sectors (such as energy and agriculture) has negatively affected business in their area.”

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.

###
TENTH DISTRICT MANUFACTURING SUMMARY

Tenth District manufacturing activity decreased further in December while expectations for future activity remained positive (Chart 1). The month-over-month prices for raw materials increased, while prices for finished products eased slightly from a month ago. District firms expected higher prices in the next 6 months.

Factory Activity Decreased Further in December

The month-over-month composite index was -8 in December, down from -3 in both November and October (Table 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The decrease in district manufacturing activity continued to be driven by weak activity at durable goods plants, especially from declines in: wood products, nonmetallic mineral products, primary metal, fabricated metal products, machinery, and computer and electronic products manufacturing. Most month-over-month indexes fell in December. The shipments index turned negative and the production, new orders, order backlog, and employment indexes declined further. Aside from the index for raw materials prices, only the supplier delivery time index remained slightly positive. Year-over-year factory indexes also dipped in December, and the composite slowed from 6 to -4. The future composite index moderated from 15 to 10 in December, but remained positive.

Special Questions

This month contacts were asked special questions about net profits and the impacts of conditions in other industries on their business activity. Nearly 44 percent of District manufacturing contacts reported higher net profits over the past year, but a similar share reported lower net profits (Chart 2). Over 56 percent of firms expect net profits to increase at some level over the next year. Just over 50 percent of contacts indicated that weakening in other goods-producing sectors (such as agriculture and energy) was leading to weaker conditions for business activity in their area (Chart 3). Another 24 percent of firms reported strengthening in other goods-producing sectors was leading to stronger conditions, while 26 percent of firms reported no connection between other goods-producing sectors and business activity.
Selected Manufacturing Comments

“The cost of fossil fuel energy has a direct impact on our business. The higher the cost of fossil fuels, the stronger the conditions in my business, and vice versa.”

“Weakness in the oil and gas market is significantly negatively impacting our business until we can offset that business with work from other sectors.”

“Our business is somewhat seasonal, so this month vs. last being down is a normal cycle. Overall customer spending is more robust than years past.”

“The holiday seasonal temp workers have made it even more difficult for us to find and retain employees. We literally have people coming to us for the first day of work and leaving because they got an offer $1 to $2 higher down the street. Labor is and continues to be our biggest struggle.”

“Overall the economy is running smoothly at this time without major wage pressure or problems finding reasonable labor for entry-level work. We regularly train personnel and promote from within and are finding more personnel who are interested in improving their own skills.”

“Best winter backlog we’ve see in a while.”

“We are being aggressive and proactive in both sales and the pricing arena.”

“Capital expenditures and labor efficiency has helped the bottom line for net profits.”

“We are on hold until someone decides what the next round of tariffs will be.”

“The tariff on steel and the trade issues are still a concern for 2020. We are being very conservative on capital expenditures and use of cash until these two things calm down.”
### Table 1. Summary of Tenth District Manufacturing Conditions, December 2019

<table>
<thead>
<tr>
<th>Plant Level Indicators</th>
<th>December vs. November (percent)*</th>
<th>December vs. Year Ago (percent)*</th>
<th>Expected in Six Months (percent)*</th>
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*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 was open for a five-day period from December 11-16, 2019 and included 93 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

### Chart 1. Manufacturing Composite Index vs. a Month Ago

![Composite Index Chart](chart1.png)
Chart 2. Special Question: What has been the change in your firm’s net profit over the past year and how much do you expect net profit to change over the next year?

- Increased more than 10%
- Increased 0-10%
- Stayed the same
- Decreased 0-10%
- Decreased more than 10%

Chart 3. Special Question: How are current developments in other goods-producing sectors (examples: agriculture, energy) affecting business activity in your area?

- Strengthening in other goods-producing sectors is leading to stronger conditions for my business.
- Weakening in other goods-producing sectors is leading to weaker conditions for my business.
- There is no connection between the strength of other goods-producing sectors and the strength of my business.
### Table 2

#### Historical Manufacturing Survey Indexes

#### Versus a Month Ago

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