



# News Release

**Federal Reserve Bank of Kansas City**

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Manufacturing activity in the Kansas City Federal Reserve District continued to expand modestly in April, according to a quarterly survey of manufacturers across the region, while price pressures intensified for raw materials and, to a lesser extent, finished products. The survey takes a snapshot of manufacturing the first month of each quarter by asking plant managers about a variety of manufacturing indicators.

According to the author of the survey, Chad Wilkerson, assistant economist, the small expansion in April was a result of increased production at nondurable goods-producing plants, while durable goods production remained solid. Most other indicators of factory activity edged up with production in April and were moderately above year-ago levels.

Raw materials prices continued to surge in April. However, the index for finished goods prices remained well below the index for raw material prices, suggesting possible pressure on profit margins. Expectations of future production fell slightly in April but capital expenditures recovered after falling slightly in January, suggesting that modest growth in the manufacturing sector will continue.

In summary, most plant managers remain optimistic about future manufacturing activity in the region despite rising cost pressures.

The April survey included 147 responses from manufacturing plants throughout the seven states of the Tenth District. A summary of the April survey is attached to this press release. A copy of the previous quarterly survey (January 2000) is also attached.

For more information about the quarterly manufacturing survey, contact Chad Wilkerson, Economic Research Department, 816-881-2869.

The Second Quarter manufacturing survey, as well as background information and results from past surveys, can be found on the Federal Reserve Bank of Kansas City's web site, <http://www.kc.frb.org>.

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# Survey of Tenth District Manufacturers

By Chad R. Wilkerson

**F**actory activity in the Tenth Federal Reserve District continued to expand modestly in April, according to a quarterly survey of manufacturers across the district, while price pressures intensified for raw materials and, to a lesser extent, finished products. The survey takes a snapshot of manufacturing the first month of each quarter by asking plant managers in the region about a variety of manufacturing indicators (Table 1).

The net percentage of Tenth District firms reporting higher levels of production rose slightly in April from the previous quarterly survey but remained generally subdued compared with activity earlier in the economic expansion (Chart 1). The small improvement in April was a result of increased production at nondurable goods-producing plants, which had suffered a slowdown in January following Y2K-related consumer stockpiling at the end of 1999. Durable goods production remained solid, increasing at a rate similar to the previous two surveys. Geographically, the highest production index in the district was posted in Oklahoma, where factory activity has been very strong throughout the past year. Colorado plants also continued to register solid production gains, and expectations of future activity in the state were the highest in the district. Production in Kansas was flat for the second straight survey, following five quarters of contraction. Manufacturing activity in Missouri and Nebraska continued to slip.

Most other indicators of factory activity, including volume of shipments and volume of new orders, edged up with production in April and were moderately above year-ago levels. There were several exceptions, however, particularly in the realm of prices. Raw materials prices continued to surge in April, with the net percentage of firms reporting increased input prices reaching the highest level

since mid-1995. More firms also seemed to be passing cost increases through to output prices than in the recent past, as the index for finished product prices in the last two surveys has been positive after falling in the previous eight. The index for finished goods prices remained well below the index for raw material prices, however, suggesting possible pressure on profit margins. Expectations of future production fell slightly in April but capital expenditures recovered after falling slightly in January, suggesting that modest growth in the manufacturing sector will continue.

## *Indicators of recent activity*

Increases in factory production, shipments, and new orders in the district were all slightly higher in April than in the previous survey. Growth in each of these indicators, however, has been quite slow during the last two years compared with the period from early 1996 through early 1998. The slow growth is reflected in their lower indexes of change from a year ago in the April survey.

Several other indicators of factory activity followed recent trends. The backlog of orders at district plants fell slightly again in April and has not risen since late 1997, as firms have largely been able to keep up with demand for their goods since the onset of the Asian economic crisis. New orders for exports continued to rise slowly and were well above year-ago levels by April. The number of employees fell for the third straight survey, consistent with regional data published by the Bureau of Labor Statistics. Supplier delivery times continued to edge up, although not as quickly as in the previous two surveys. Inventory levels changed very little. One important variation from the January survey was capital expenditures, which showed a

Chart 1  
Tenth District Manufacturing Production Index

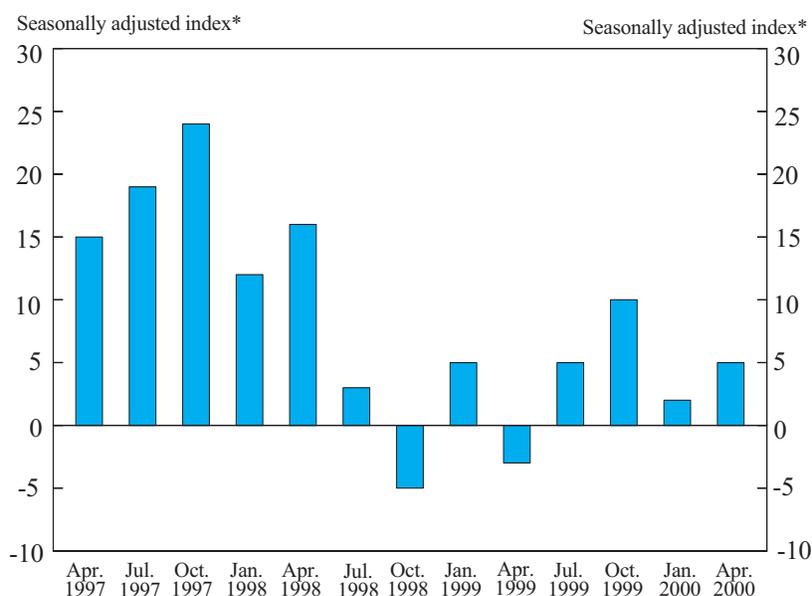


Table 1  
Summary of Tenth District Manufacturing Conditions, April 2000

Plant level indicators	April vs. March (percent, seasonally adjusted)				April vs. Year ago (percent)				Expected in six months (percent, seasonally adjusted)			
	Increase	No change	Decrease	Index*	Increase	No change	Decrease	Index*	Increase	No Change	Decrease	Index*
Production	32	41	27	5	40	26	34	6	48	37	15	33
Volume of shipments	34	34	32	2	41	27	32	9	54	29	17	37
Volume of new orders	31	43	26	5	38	34	28	10	52	32	16	36
Backlog of orders	24	51	25	-1	31	41	28	3	31	50	19	12
Number of employees	23	47	30	-7	40	28	32	8	26	62	12	14
Average employee workweek	15	68	17	-2	25	53	22	3	17	70	13	4
Prices received for finished product	15	77	8	7	42	41	17	25	33	56	11	22
Prices paid for raw materials	39	54	7	32	62	29	9	53	43	49	8	35
Capital expenditures	—	—	—	—	29	48	23	6	33	54	13	20
New orders for exports	16	72	12	4	29	59	12	17	29	62	9	20
Supplier delivery time	5	92	3	2	14	82	4	10	6	89	5	1
Inventories:												
Materials	22	55	23	-1	33	35	32	1	16	56	28	-12
Finished goods	21	55	24	-3	31	39	30	1	15	58	27	-12
Industry activity, national level	28	52	20	8	42	34	24	18	40	46	14	26

\* The diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicator from the percentage of those reporting increases. Index values greater than zero generally suggest expansion, while values less than zero indicate contraction. When index values are closer to 100, the increases among respondents are more widespread. When index values are closer to -100, decreases are more widespread.  
Note: The April survey included 147 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

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small year-over-year gain after rising in just one of the previous six surveys.

Price pressures intensified for raw materials and, to a lesser extent, finished products. The percentage of firms reporting higher raw material prices has grown larger in each of the last six surveys, reaching a five-year high in April. Firms also seemed to be having somewhat more success passing cost increases through to finished product prices, which have risen modestly in each of the past two surveys after falling in the previous eight. The index for finished product prices also reached a five-year high in April.

Plant managers in the district viewed national factory activity as somewhat stronger in April than in January. Compared with a year ago, they reported that industry activity at the national level had risen more than in the district. This assertion is consistent with Bureau of Labor Statistics employment data, which have shown a smaller decline in national manufacturing employment over the past year than in district factory jobs.

### *The outlook*

Expectations of future factory activity in the district fell slightly in April after reaching a two-year high in January. Moreover, expectations of future price increases for both raw materials and finished products remained similar to the high levels posted in the previous two surveys. Overall, however, optimism about district factory activity remained fairly high, as reflected in the increase in capital expenditures in April. Firms also remained upbeat about the outlook for international demand.

In summary, plant managers in the Tenth District reported modest expansion in April, and most remain optimistic about future manufacturing activity in the region despite rising cost pressures.

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Chad R. Wilkerson is an assistant economist at the Federal Reserve Bank of Kansas City. Information on the development of the manufacturing survey appeared in "Tenth District Survey of Manufacturers" by Tim R. Smith, which was published in the Fourth Quarter 1995 issue of the *Economic Review*.

