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# Survey of Tenth District Manufacturers

By Tim R. Smith

**M**anufacturing conditions in the Kansas City Federal Reserve District weakened modestly in January after rebounding late in 1995, according to a quarterly survey of manufacturers across the district. The survey takes a snapshot of manufacturing activity during the first month of each quarter by asking plant managers about a variety of manufacturing indicators. Most measures of manufacturing show steady to slightly declining activity in January. District factories continued to trim materials inventories but recorded a slight increase in inventories of finished goods. Price increases for raw materials were less widespread in January than when the survey was last taken in October 1995. Prices of finished goods remained stable. Manufacturing activity generally remained stronger than a year ago, and manufacturers expressed optimism about the outlook for the next six months.

## *Indicators of recent activity*

*Production* was steady across the district in January after growing moderately last October. While production was virtually unchanged during the first month of this year, it remained ahead of year-ago levels. Moreover, the recent picture of stable output at district factories compares favorably with respondent perceptions of a modest decline in manufacturing activity elsewhere in the nation.

Most other indicators of current manufacturing activity in the district suggest a slight contraction in January. After registering expansion last fall, indexes for shipments and new orders both dipped slightly below zero in January. Backlogs of orders and supplier delivery time also fell below zero. Index values below zero signal a contraction in activity since they reveal that the respondents reporting a decrease in activity outnumbered those reporting an increase. Weaker overall manufacturing activity led to only modest gains in capital spending in January. Export orders also increased only modestly.

*Inventories* were essentially unchanged during

January. The index for materials shows only a slight drawdown in stocks, while the index for finished goods shows a slight expansion. Respondents are generally maintaining larger inventories of both materials and finished goods than a year ago.

*Employment* held steady at district manufacturing plants in January. Comparisons with a year ago also show little change in plant workforce levels. The average employee workweek fell slightly.

*Price increases* remained more widespread for raw materials than for finished goods in January. Materials prices increased at 28 percent of the plants surveyed. While materials price increases occurred at fewer plants than in October, the price increases were more widespread than a year ago. Prices for final products remained stable during the month, but were also up from a year ago.

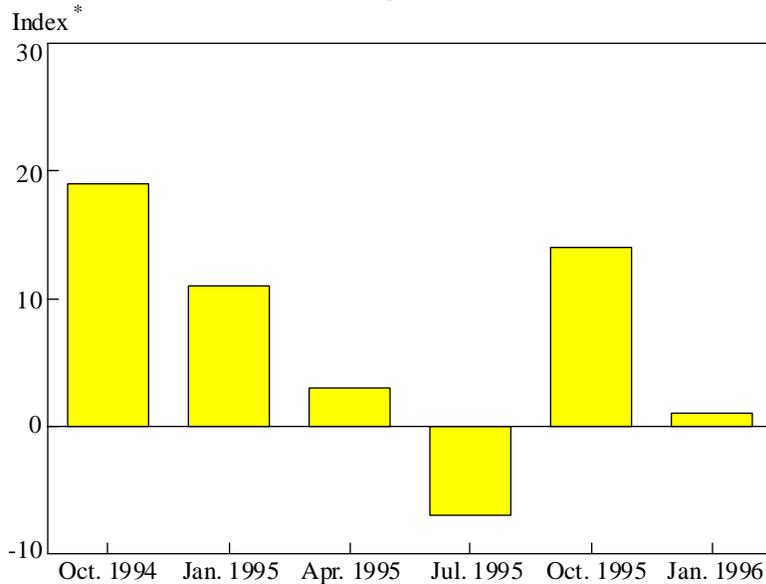
## *The outlook*

District manufacturers generally remain optimistic about the near-term outlook. Indexes of activity expected in the next six months continue to be solidly positive. For example, the index of future production rose from October, and more than half of the respondents expect their production to increase over the next six months. District manufacturers also report that their outlook for national business conditions also improved significantly since the October survey was taken. While respondents still expect modest gains in district factory jobs, the outlook for manufacturing employment was somewhat less optimistic in January than in October. About a third of survey respondents expect price increases for both materials and finished goods in the period ahead, a significantly smaller proportion than in the last survey.

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## Tenth District Manufacturing Production Index



## Summary of Tenth District Manufacturing Conditions, January 1996

	January vs. December (percent)				January vs. year ago (percent)				Expected in six months (percent)			
	Increase	No change	Decrease	Index*	Increase	No change	Decrease	Index*	Increase	No change	Decrease	Index*
Plant level indicators												
Production	33	35	32	1	49	17	34	15	55	35	9	46
Volume of shipments	33	29	37	-4	47	20	33	14	57	33	11	46
Volume of new orders	29	39	31	-2	43	24	33	10	54	33	13	41
Backlog of orders	20	46	32	-12	28	36	34	-6	28	54	16	12
Number of employees	17	63	19	-2	35	31	35	0	29	57	14	15
Average employee workweek	13	64	23	-10	19	54	26	-7	19	71	8	11
Prices received for finished product	16	69	14	2	47	38	14	33	31	61	6	25
Prices paid for raw materials	28	55	16	12	66	18	16	50	33	51	15	18
Capital expenditures	—	—	—	—	34	38	26	8	35	44	19	16
New orders for exports	16	64	7	9	29	47	11	18	31	48	7	24
Supplier delivery time	4	86	8	-4	7	77	14	-7	6	88	4	2
Inventories:												
Materials	23	49	27	-4	35	39	24	11	21	44	34	-13
Plant's finished goods	30	45	22	8	35	38	24	11	18	47	32	-14
Industry activity, national level	21	41	36	-15	31	26	42	-11	46	41	11	35

\* 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 January survey included 190 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.