



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Kansas City Federal Reserve District expanded slightly in January, according to a quarterly survey of manufacturers across the region. 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.

According to Ricardo C. Gazel, economist and author of the survey, most measures of manufacturing showed slower growth from the high rates achieved in October 1997. Much of the slowdown may be the result of seasonal factors. Inventories of finished goods edged up at district factories. Prices of finished goods edged down, while prices of raw materials increased slightly. Overall, manufacturing remained stronger than a year ago, and manufacturers were more optimistic about the outlook for the next six months than in the last survey.

The January survey included 173 responses from manufacturing plants throughout the seven states of the Tenth District. Survey results will be published in the First Quarter 1998 issue of the Bank's *Regional Economic Digest*.

A summary of the January survey is attached to this press release. A copy of the previous quarterly survey (October 1997) is also attached.

For more information about the quarterly manufacturing survey, contact Ricardo Gazel, Economic Research Department, (816) 881-2221.

The First 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 home page on the Internet's World Wide Web, <http://www.kc.frb.org>.

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Survey of Tenth District Manufacturers

By Ricardo C. Gazel

Manufacturing activity in the Kansas City Federal Reserve District expanded slightly in January, according to a quarterly survey of manufacturers across the district. The survey takes a snapshot of manufacturing the first month of each quarter by asking plant managers about a variety of manufacturing indicators (Table 1). By most measures, growth in the manufacturing sector slowed from the high rates achieved in October 1997. Much of the slowdown may be the result of seasonal factors. Inventories of finished goods edged up at district factories. Prices received for finished goods edged down, while prices of raw materials increased slightly. Overall, manufacturing remained stronger than a year ago, and manufacturers were more optimistic about the outlook for the next six months than in the last survey.

Indicators of recent activity

Production grew slightly across the district in January 1998, but more slowly than in October 1997. The January production index was 9, down from 29 in October (Chart 1). The decline may reflect seasonal patterns in district manufacturing plants. In three of the past four years, the production index fell from October to January. As in the last survey, production remained moderately above year-ago levels.

Most other indicators of current manufacturing activity in the district suggested a slowdown in January. Shipments and new orders both posted slight declines, in contrast with the large gains registered in October. Supplier delivery time edged down and backlogs decreased moderately in January. New orders from exports decreased slightly, reflecting lower export demand from Asia and the effects of a strong dollar. On the positive side, capital expenditures were up moderately from a year ago.

Inventories for finished goods edged up in January, at a slightly faster rate than in October. On the other hand, inventories for raw materials were practically unchanged in January after a slight

increase in October. Manufacturers held moderately larger inventories for both finished goods and raw materials compared with year ago levels.

In contrast to the general slowing for most indicators, employment at district factories expanded at a slightly higher rate in January than in October, reflecting plant managers' optimistic view of the near future. However, the average employee workweek edged down following a slight increase in October. Plant work force levels and the average workweek were both up from a year ago.

Prices for raw materials increased at a slightly slower pace than in October, while prices for finished goods edged down. Prices for finished goods and raw materials were both somewhat higher than a year ago.

The outlook

Despite the recent slowdown, district manufacturers are more optimistic about the near-term outlook than in our last survey. Indexes of activity expected in the next six months continue to signal expansion, at a modestly faster pace than in October. The indexes of future production and volume of shipments were both 53 in January, up from 30 and 31, respectively, in October. Managers also expect factory jobs and the average workweek to increase in coming months, at a slightly faster pace than in the last survey. Respondents expect prices of finished goods to rise modestly in the next six months, at a slightly higher pace than was expected in October. Prices of raw materials are also expected to rise modestly in coming months, but at a slower pace than in our last survey. Consistent with their views on local conditions, district manufacturers remain upbeat about national business conditions, expressing a degree of optimism slightly higher than in the last survey.

Ricardo C. Gazel is an 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*.

Chart 1
Tenth District Manufacturing Production Index

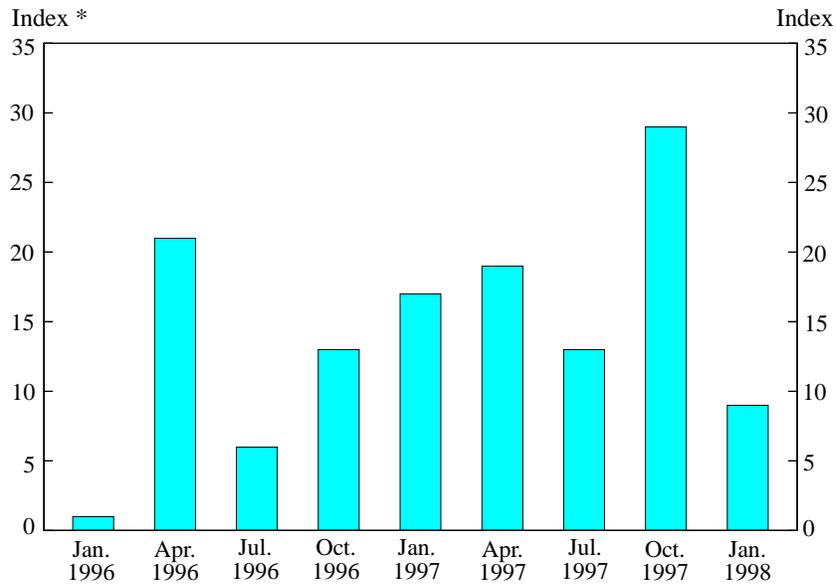


Table 1
Summary of Tenth District Manufacturing Conditions, January 1998

Plant level indicators	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 *
Production	36	36	27	9	56	27	16	40	63	27	10	53
Volume of shipments	31	36	33	-2	54	25	20	34	64	25	11	53
Volume of new orders	30	37	33	-3	53	28	19	34	59	31	10	49
Backlog of orders	18	48	34	-16	29	49	22	7	34	51	15	19
Number of employees	23	66	11	12	47	30	23	24	39	53	8	31
Average employee workweek	17	65	18	-1	26	62	12	14	23	67	9	14
Prices received for finished product	9	80	12	-3	38	41	21	17	33	62	5	28
Prices paid for raw materials	15	77	8	7	48	31	21	27	33	61	6	27
Capital expenditures	—	—	—	—	37	43	20	17	46	39	15	31
New orders for exports	8	78	14	-6	27	60	14	13	34	55	11	23
Supplier delivery time	4	89	7	-3	11	78	11	0	10	83	7	3
Inventories:												
Materials	22	58	20	2	39	42	19	20	20	57	23	-3
Finished goods	28	52	20	8	38	40	22	16	26	52	23	3
Industry activity, national level	22	53	25	-3	49	32	19	30	51	36	13	38

* 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 173 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

SURVEY OF TENTH DISTRICT MANUFACTURING OCTOBER 1997

Chart 1
Tenth District Manufacturing Production Index

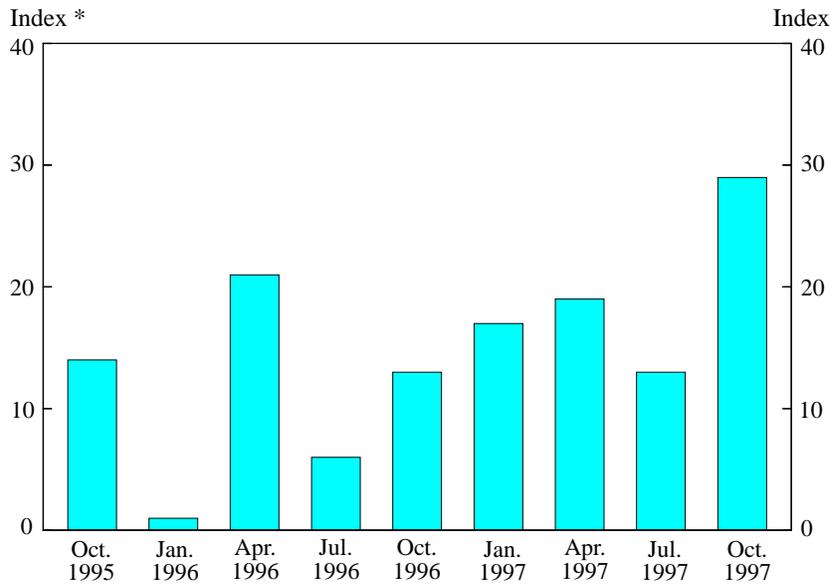


Table 1
Summary of Tenth District Manufacturing Conditions, October 1997

Plant level indicators	October vs. September (percent)				October vs. year ago (percent)				Expected in six months (percent)			
	Increase	No change	Decrease	Index *	Increase	No change	Decrease	Index *	Increase	No change	Decrease	Index *
Production	47	35	18	29	59	20	21	38	45	40	15	30
Volume of shipments	46	34	20	26	58	21	21	37	48	35	17	31
Volume of new orders	39	40	20	19	54	23	23	31	48	35	17	31
Backlog of orders	27	51	22	5	34	42	24	10	25	53	21	4
Number of employees	27	55	19	8	45	33	22	23	33	55	12	21
Average employee workweek	24	60	16	8	28	55	17	11	20	64	16	4
Prices received for finished product	10	83	7	3	37	51	12	25	29	63	8	21
Prices paid for raw materials	20	72	8	12	54	28	18	36	43	49	7	36
Capital expenditures	—	—	—	—	41	42	17	24	46	44	11	35
New orders for exports	17	75	8	9	29	58	13	16	35	59	6	29
Supplier delivery time	9	88	4	5	14	75	11	3	13	81	6	7
Inventories: Materials	28	50	21	7	33	37	30	3	23	51	26	-3
Finished goods	28	52	21	7	35	44	21	14	25	54	22	3
Industry activity, national level	36	53	12	24	57	23	20	37	41	43	16	25

* 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 October survey included 165 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.