



## News Release

**Federal Reserve Bank of Kansas City**

Kansas City, Missouri 64198

Phone (816) 881-2683

FOR RELEASE Tuesday, October 9, 2001  
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Manufacturing activity in the Kansas City Federal Reserve District weakened somewhat in September after showing tentative signs of a turnaround in August. Capital spending continued to decline in the wake of the terrorist attacks, and projections for future production and spending reached survey lows. Factory production showed renewed signs of weakening in September, as did other indicators of factory activity. Both durable- and nondurable-goods production fell further below year-ago levels in September.

A summary of the September survey is attached to this press release. The manufacturing survey, which since October 1994 has been performed quarterly via mail, takes a snapshot of factory activity in the region by asking respondents about a variety of manufacturing indicators. Starting with the July 2001 release, information about the Tenth District's manufacturing sector is available monthly.

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The September 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>.

## Survey of Tenth District Manufacturers

by Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District weakened somewhat in September after showing tentative signs of a turnaround in August, according to a survey of plant managers in the region. Capital spending continued to decline in the wake of the terrorist attacks, and projections for future production and spending reached survey lows. The Federal Reserve Bank of Kansas City's Survey of Manufacturers takes a snapshot of factory activity each month by asking respondents about a variety of manufacturing indicators. This is the third release since the Bank's quarterly survey was replaced with a monthly survey in order to provide more timely information on the regional manufacturing sector.

Factory production showed renewed signs of weakening in September. The net percentage of Tenth District firms reporting a monthly increase in production was zero (Table 1). However, because the monthly survey is not old enough to seasonally adjust the month-to-month changes, the year-over-year indexes probably provide a more reliable picture of the district manufacturing sector. The year-over-year production index became more negative after rising somewhat in August (Chart 1). The index was still slightly better than in July, which marked a survey low. Both durable- and nondurable-goods production fell further below year-ago

levels in September.

In addition to production, most other indicators of factory activity became weaker in September. The year-over-year indexes for volume of shipments, volume of new orders, and backlog of orders were all lower than in August but higher than in July. Reflecting the large number of layoffs during September, the year-over-year index for number of employees was as far below zero as in July after improving in August, and the average employee workweek index was nearly as low as in July. Despite some slowdowns immediately after the terrorist attacks, supplier delivery times edged down for the month as a whole and were about even with year-ago levels. Inventory levels for raw materials remained below year-ago levels but the index for inventories of finished products rose to zero after being considerably negative for two months. The year-over-year index for capital expenditures edged further below zero in September, continuing a steady decline that began in early 2000 and reaching its lowest point in the survey's history.

Price pressures for finished goods and raw materials moved in opposite directions in September. In August, for the first time in a few years, the year-over-year index for finished goods prices had been higher than the index for materials prices, indicating that firms were having a somewhat easier time passing cost increases through. This changed back in September, as the index for finished goods prices fell and the index for raw materials prices edged up.

Expectations for future factory activity in the region fell to the lowest point in the history of the survey, yet remained slightly positive. The six-months-ahead indexes for production, shipments, and new orders all fell below previous lows reached this July and during the Asian financial crisis of 1998. In addition, projections for new orders for exports became negative for the first time. The future index for number of employees was highly negative, as many layoff announcements have not yet come to fruition. Reflecting manufacturers caution about the future, the index for capital expenditures six months down the road fell even further behind August's very negative reading.

**Table 1**

**Summary of Tenth District Manufacturing Conditions, September 2001**

Plant Level Indicators	September vs. August (Percent)				September 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	25	50	25	0	31	17	48	-17	30	40	26	4
Volume of shipments	34	34	28	6	35	15	46	-11	31	36	28	3
Volume of new orders	21	42	32	-11	30	22	42	-12	34	36	25	9
Backlog of orders	13	43	39	-26	25	30	40	-15	17	47	31	-14
Number of employees	13	52	30	-17	18	28	50	-32	14	53	28	-14
Average employee workweek	9	71	17	-8	11	48	36	-25	10	69	17	-7

<b>Prices received for finished product</b>	5	76	14	-9	31	35	28	3	19	60	15	4
<b>Prices paid for raw materials</b>	10	75	11	-1	36	35	25	11	22	61	11	11
<b>Capital expenditures</b>					19	30	43	-24	13	48	31	-18
<b>New orders for exports</b>	9	68	10	-1	17	53	17	0	7	71	10	-3
<b>Supplier delivery time</b>	1	86	9	-8	11	72	13	-2	5	84	7	-2
<b>Inventories:</b>												
<b>Materials</b>	11	57	25	-14	22	38	35	-13	14	44	35	-21
<b>Finished goods</b>	21	44	26	-5	30	32	28	2	14	39	39	-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 September survey included 76 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

**Table2**

**Historical Manufacturing Survey Indexes**

	0107	0108	0109
<b>Previous Month</b>			
<b>Production</b>	-21	22	0
<b>Volume of shipments</b>	-28	15	6
<b>Volume of new orders</b>	-24	10	-11
<b>Backlog of orders</b>	-20	-2	-26
<b>Number of employees</b>	-18	-1	-17
<b>Average employee workweek</b>	-12	4	-8
<b>Prices received for finished product</b>	-7	0	-9
<b>Prices paid for raw materials</b>	3	-3	-1
<b>Capital expenditures</b>	0	0	0

<b>New orders for exports</b>	8	6	-1
<b>Supplier delivery time</b>	1	-3	-8
<b>Inventories: Materials</b>	-24	-10	-14
<b>Inventories: Finished goods</b>	-21	-5	-5
<b>Previous Year</b>			
<b>Production</b>	-28	-7	-17
<b>Volume of shipments</b>	-28	-1	-11
<b>Volume of new orders</b>	-28	-12	-12
<b>Backlog of orders</b>	-22	-7	-15
<b>Number of employees</b>	-32	-25	-32
<b>Average employee workweek</b>	-32	-5	-25
<b>Prices received for finished product</b>	-5	13	3
<b>Prices paid for raw materials</b>	16	9	11
<b>Capital expenditures</b>	-11	-22	-24
<b>New orders for exports</b>	1	-2	0
<b>Supplier delivery time</b>	1	-2	-2
<b>Inventories: Materials</b>	-30	-15	-13
<b>Inventories: Finished goods</b>	-20	-12	2
<b>Six Months Ahead</b>			
<b>Production</b>	12	13	4
<b>Volume of shipments</b>	15	8	3
<b>Volume of new orders</b>	13	15	9
<b>Backlog of orders</b>	-3	3	-14
<b>Number of employees</b>	-15	7	-14
<b>Average employee workweek</b>	-9	6	-7
<b>Prices received for finished product</b>	10	10	4

<b>Prices paid for raw materials</b>	22	6	11
<b>Capital expenditures</b>	0	-16	-18
<b>New orders for exports</b>	12	7	-3
<b>Supplier delivery time</b>	-5	-3	-2
<b>Inventories: Materials</b>	-28	-16	-21
<b>Inventories: Finished goods</b>	-24	-11	-25

