



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Tenth Federal Reserve District in February remained very weak compared with a year ago but showed some signs of improvement. Indexes for production, shipments, and orders versus a year ago were slightly less negative than in January, and expectations for future activity remained strong. In the biggest change from past surveys, a considerably larger number of firms now expect to add workers than subtract them within the next six months.

A summary of the February survey is attached to this press release. The Federal Reserve Bank of Kansas City's manufacturing survey takes a snapshot of factory activity in the Tenth District by asking respondents about a variety of manufacturing indicators. From October 1994 to July 2001, the survey was performed quarterly. Starting with the July 2001 release, information about the Tenth District's manufacturing sector is available monthly. Due to the relatively brief history of the monthly survey, however, the data cannot yet be seasonally adjusted, so caution must be taken in basing analysis on month-to-month changes. Until several years of monthly data are available for seasonal adjustment, the attached summary will focus primarily on changes in activity versus a year ago.

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The February 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 in February remained very weak compared with a year ago but showed some signs of improvement. While still well below zero, the indexes for production, shipments, and orders versus a year ago were slightly less negative than in January. And looking ahead, expectations for future activity remained strong, including the outlook for hiring. Production versus a month ago also increased for the second straight month, but the data are not yet seasonally adjusted due to the brief history of the monthly survey, so caution must be taken in basing analyses on such month-to-month comparisons. Until several years of data are available for seasonal adjustment, this report will focus primarily on changes in activity versus a year ago.

After reaching a survey low in January, the net percentage of firms reporting increases in production from a year ago rose slightly to -29 in February (Tables 1 & 2). This level, however, still represents the second lowest point in the eight-year history of the Kansas City Fed's manufacturing surveys. The small year-over-year improvement from January came entirely at durable goods-producing plants, although the production index for these plants remains well below year-ago levels. Meanwhile, nondurable goods-producing plants continued to post virtually flat production compared with a year ago, as they have since last summer. While sample sizes make it more difficult to draw firm conclusions about individual states, it appears from the data available that production remains below year-ago levels in all district states.

In addition to production, the year-over-year indexes for shipments and new orders also improved in February but remained quite negative. Meanwhile, the year-over-year indexes for number of employees, average employee workweek, and capital expenditures all worsened, falling even further below zero. The decline in the capital expenditures index was particularly troubling, as it had improved slightly during the previous three months.

Inventories remained well below year-ago levels in February. While the year-over-year index for raw materials inventories remained as low as in recent surveys, the year-over-year index for inventories of finished products was only half as negative as in January. Supplier delivery times were largely unchanged.

The price indexes were mixed. Prices received for finished products remained slightly above year-ago levels in February, while the year-over-year index for raw materials prices jumped to 23, the highest in the eight-month history of the survey. This jump likely signifies rising demand for many materials nationwide as, based on other data releases, firms across the country have begun to ramp up production.

Expectations for future factory activity remained strong in February after rising considerably since October. The future production index was at 32, nearly matching the January figure. Meanwhile, expectations for new orders increased further, and expectations for future capital expenditures continued to become less negative after bottoming out in November. In the biggest change from past surveys, a considerably larger number of firms now expect to add workers than subtract them within the next six months. Regarding prices, the net percentage of firms expecting to raise their finished goods prices remained relatively low, but a much larger percentage of firms expect further increases in raw material prices in coming months.

Table 1

Summary of Tenth District Manufacturing Conditions, February 2002

	February vs. January (percent, not seasonally adjusted)				February vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *
Plant Level Indicators												
Production	30	41	27	3	22	26	51	-29	52	26	20	32
Volume of shipments	26	40	33	-7	25	22	52	-27	56	20	22	34
Volume of new orders	26	40	29	-3	23	19	52	-29	52	27	15	37
Backlog of orders	23	43	31	-8	19	36	43	-24	34	47	16	18
Number of employees	18	54	27	-9	12	29	58	-46	37	40	22	15
Average employee workweek	22	61	15	7	9	51	38	-29	22	58	19	3
Prices received for finished product	4	81	12	-8	26	51	20	6	18	68	12	6
Prices paid for raw materials	16	73	8	8	38	45	15	23	31	59	6	25
Capital expenditures					12	36	48	-36	15	58	22	-7
New orders for exports	9	68	15	-6	11	59	23	-12	15	66	12	3
Supplier delivery time	6	88	1	5	11	72	13	-2	9	83	4	5
Inventories:												
Materials	15	48	34	-19	15	37	45	-30	22	51	25	-3
Finished goods	31	37	26	5	23	33	40	-17	29	43	26	3

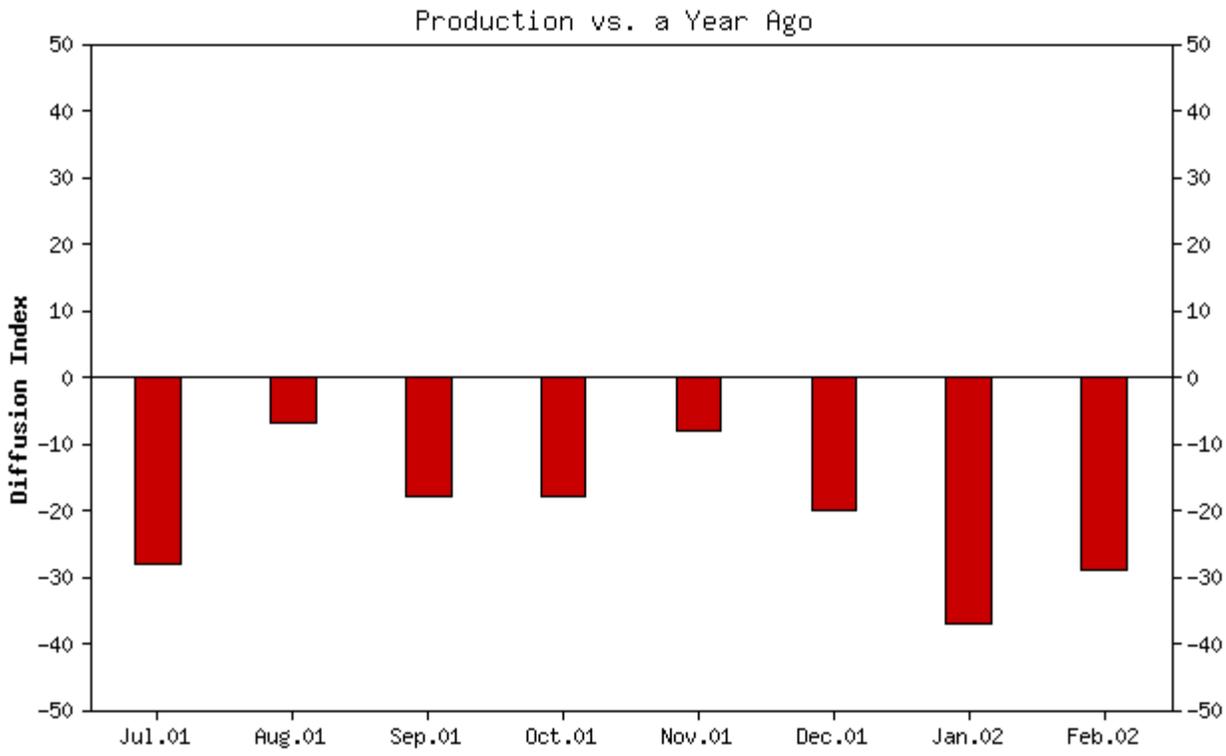
* The diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicator from the percentage of those reporting increases. Index values greater than zero generally suggest expansion, while values less than zero indicate contraction. When index values are closer to 100, the increases among respondents are more widespread. When index values are closer to -100, decreases are more widespread.

Note: The February survey included 72 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2

Historical Manufacturing Survey Indexes

	Jul'01	Aug'01	Sep'01	Oct'01	Nov'01	Dec'01	Jan'02	Feb'02
Versus a Month Ago (not seasonally adjusted)								
Production	-21	22	0	6	-15	-21	6	3
Volume of shipments	-28	15	5	-1	-19	-14	-4	-7
Volume of new orders	-24	10	-12	-9	-25	-25	11	-3
Backlog of orders	-20	-2	-26	-20	-23	-19	0	-8
Number of employees	-18	-1	-17	-20	-20	-22	-8	-9
Average employee workweek	-12	4	-7	-12	-18	-13	-3	7
Prices received for finished product	-7	0	-9	-12	-8	-5	-9	-8
Prices paid for raw materials	3	-3	-1	3	-3	2	1	8
Capital expenditures	n/a							
New orders for exports	8	6	-1	-5	-5	-12	-2	-6
Supplier delivery time	1	-3	-8	-9	0	-1	3	5
Inventories: Materials	-24	-10	-12	-6	-13	-29	3	-19
Inventories: Finished goods	-21	-5	-7	-6	-15	-24	0	5
Versus a Year Ago								
Production	-28	-7	-18	-18	-8	-20	-37	-29
Volume of shipments	-28	-1	-11	-16	-12	-6	-36	-27
Volume of new orders	-28	-12	-13	-21	-21	-20	-30	-29
Backlog of orders	-22	-7	-16	-19	-14	-21	-27	-24
Number of employees	-32	-25	-32	-34	-38	-41	-41	-46
Average employee workweek	-32	-5	-25	-27	-29	-24	-20	-29
Prices received for finished product	-5	13	3	-7	-2	5	2	6
Prices paid for raw materials	16	9	12	15	0	0	-2	23
Capital expenditures	-11	-22	-25	-31	-25	-24	-21	-36
New orders for exports	1	-2	0	1	-8	-8	-8	-12
Supplier delivery time	1	-2	-1	-6	-16	-1	-7	-2
Inventories: Materials	-30	-15	-14	-11	-33	-27	-33	-30
Inventories: Finished goods	-20	-12	0	-15	-27	-27	-34	-17
Expected in Six Months (not seasonally adjusted)								
Production	12	13	6	4	13	22	33	32
Volume of shipments	15	8	4	4	13	29	41	34
Volume of new orders	13	15	11	11	8	19	28	37
Backlog of orders	-3	3	-15	-2	-9	2	5	18
Number of employees	-15	7	-13	-14	-7	-6	-5	15
Average employee workweek	-9	6	-6	-6	-9	-1	4	3
Prices received for finished product	10	10	4	2	13	13	0	6
Prices paid for raw materials	22	6	11	5	14	21	13	25
Capital expenditures	0	-16	-19	-18	-23	-14	-9	-7
New orders for exports	12	7	-3	3	-1	0	1	3
Supplier delivery time	-5	-3	-2	4	-4	3	3	5
Inventories: Materials	-28	-16	-20	-27	-29	-7	-16	-3
Inventories: Finished goods	-24	-11	-24	-29	-22	-15	-21	3



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