



# News Release

## Federal Reserve Bank of Kansas City

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Manufacturing activity in the Great Plains and Rocky Mountain region encompassed by Tenth Federal Reserve District remained very strong during November. Manufacturers also remain optimistic about the future with the future employment index rising to its highest point since 2000, suggesting firms may be ready to start hiring.

A summary of the November survey is attached to this press release.

The Tenth Federal Reserve District encompasses Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri.

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The November 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 remained very strong in November. The year-over-year production and new orders indexes were largely unchanged from the high levels posted in October, and the year-over-year factory employment index moved out of negative territory for the first time since early 2000. The month-over-month production index remained positive but was down somewhat from the readings of the three previous months. However, the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons. For example, the month-over-month production index also fell by sizable amounts in November 2001 and November 2002, suggesting seasonal factors could be a primary reason for the November 2003 easing. Until several years of data are available for seasonal adjustment, this report will focus primarily on changes in activity versus a year ago.

The net percentage of firms reporting year-over-year increases in production was 31 in November, down only slightly from the five-year high of 34 posted in October (Tables 1 & 2). Year-over-year growth was largely unchanged at both durable- and nondurable-goods-producing firms, with durable producers again posting very strong growth and nondurable producers reporting more moderate growth. While sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production was at or above year-ago levels throughout the district except in western Missouri, where activity remained slightly weaker than a year ago despite some improvement in recent months.

Most other year-over-year indexes of factory activity in November either remained strong or showed improvement from October. The new orders index edged up from 40 to 41 to post another nine-year high, and the shipments index eased only slightly from the six-year high posted in October. Perhaps most notably, the employment index moved out of negative territory for the first time since before the 2001 recession, and the capital spending index rebounded to 14 after easing slightly in October. The inventory indexes—for both raw materials and finished goods—remained similar to the slightly negative readings of September and October. The low levels of inventories could provide an added boost to production in coming months as firms replenish their stockpiles.

The large gap between the year-over-year price indexes persisted in November. The finished goods price index edged up from -1 to 4, as a few more firms than in October were able to raise their prices. But the raw materials price index also edged up to 40, its highest level since before the recession in 2001, perhaps due to increased global demand for industrial goods in recent months.

Tenth District manufacturers generally remained very optimistic about future factory activity in November. While the future production index fell from 55 to 45, this level still represented the second highest reading since early 2000. The future new orders index also fell slightly from a three-year high, but the future shipments index edged up to a new three-year high. Perhaps most significantly, the future employment index rose to 24, its highest reading since 2000, suggesting firms may finally be ready to start hiring in earnest following several months of strong orders and several years of strong productivity improvements. The recent pick-up in factory activity may also be the cause of a slightly higher reading for future capital spending than in recent months. As for prices, the firms increasingly expect to be able to raise their output prices, as the future finished goods price index rose from 9 to 14. However, the future raw materials price index rose by an even larger amount, suggesting that some firms could still face a bit of a profit squeeze in the next few months.

Table 1

## Summary of Tenth District Manufacturing Conditions, November 2003

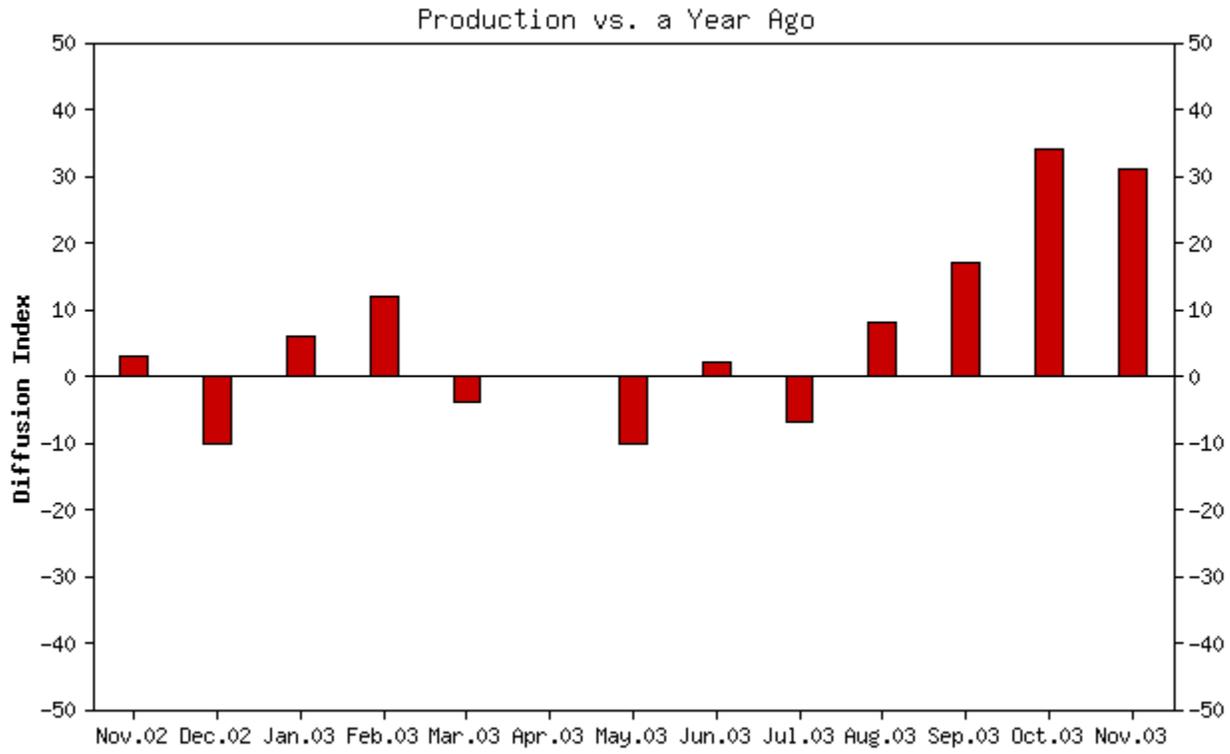
	November vs. October (percent, not seasonally adjusted)				November vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
<b>Plant Level Indicators</b>												
Production	33	38	27	6	51	26	20	31	59	25	14	45
Volume of shipments	32	33	33	-1	50	27	21	29	65	19	15	50
Volume of new orders	36	39	22	14	57	24	16	41	60	23	15	45
Backlog of orders	26	51	18	8	41	33	20	21	31	45	19	12
Number of employees	23	61	15	8	33	33	33	0	41	40	17	24
Average employee workweek	24	58	16	8	34	49	16	18	24	58	16	8
Prices received for finished product	10	77	12	-2	30	43	26	4	26	61	12	14
Prices paid for raw materials	28	69	1	27	49	39	9	40	47	44	7	40
Capital expenditures					28	54	14	14	31	54	12	19
New orders for exports	8	70	9	-1	14	65	11	3	17	65	7	10
Supplier delivery time	10	84	2	8	15	73	7	8	11	80	5	6
<b>Inventories:</b>												
Materials	25	52	21	4	25	40	33	-8	22	53	23	-1
Finished goods	22	53	20	2	22	49	26	-4	20	59	17	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 November survey included 106 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

**Table2**  
**Historical Manufacturing Survey Indexes**

	Nov'02	Dec'02	Jan'03	Feb'03	Mar'03	Apr'03	May'03	Jun'03	Jul'03	Aug'03	Sep'03	Oct'03	Nov'03
<b>Versus a Month Ago (not seasonally adjusted)</b>													
<b>Production</b>	-2	-20	14	8	11	15	1	15	8	20	31	28	6
<b>Volume of shipments</b>	1	-12	11	1	19	19	6	22	7	16	30	21	-1
<b>Volume of new orders</b>	2	-16	11	16	21	16	7	15	24	22	31	29	14
<b>Backlog of orders</b>	-4	-26	-8	-1	2	-2	0	-1	5	17	2	5	8
<b>Number of employees</b>	-10	-18	-11	-5	-17	-10	-1	-2	3	9	11	4	8
<b>Average employee workweek</b>	-3	-19	4	12	1	-1	-4	-2	4	18	25	5	8
<b>Prices received for finished product</b>	-10	-9	0	-2	-9	-7	-7	-3	-5	-4	-1	-5	-2
<b>Prices paid for raw materials</b>	9	11	12	21	20	9	7	12	8	18	16	17	27
<b>Capital expenditures</b>	n/a												
<b>New orders for exports</b>	-5	-3	1	-6	5	-8	2	4	6	7	2	5	-1
<b>Supplier delivery time</b>	-3	2	2	-3	3	1	0	-2	0	-1	5	4	8
<b>Inventories: Materials</b>	0	-17	-1	-10	6	-7	-25	-18	-6	-14	-4	5	4
<b>Inventories: Finished goods</b>	-1	-18	-8	-4	3	-8	0	-10	-12	-11	-8	1	2
<b>Versus a Year Ago</b>													
<b>Production</b>	3	-10	6	12	-4	0	-10	2	-7	8	17	34	31
<b>Volume of shipments</b>	9	-12	5	11	-6	9	-10	1	6	11	20	36	29
<b>Volume of new orders</b>	9	-6	4	24	4	7	-2	6	16	22	31	40	41
<b>Backlog of orders</b>	-5	-13	0	11	-6	-7	-13	-10	-3	3	12	10	21
<b>Number of employees</b>	-13	-37	-27	-32	-21	-29	-33	-30	-17	-8	-13	-8	0
<b>Average employee workweek</b>	-5	-15	-2	1	-7	-20	-13	-11	-1	9	17	17	18
<b>Prices received for finished product</b>	-12	-8	-11	-3	-7	-2	-7	-4	-5	1	-1	-1	4
<b>Prices paid for raw materials</b>	27	33	23	39	30	28	32	31	31	37	30	39	40
<b>Capital expenditures</b>	0	-9	-15	-15	-8	-1	-4	-12	-3	0	12	3	14
<b>New orders for exports</b>	0	-1	2	-3	-1	-11	0	-5	-5	11	0	5	3
<b>Supplier delivery time</b>	-4	0	-4	-11	-4	-2	-1	-5	-3	-4	3	-4	8
<b>Inventories: Materials</b>	-4	-13	-15	-16	-1	-6	-26	-17	-14	-11	-7	-5	-8
<b>Inventories: Finished goods</b>	-2	-1	0	-10	-1	-4	-9	-5	-5	-12	-5	-7	-4
<b>Expected in Six Months (not seasonally adjusted)</b>													
<b>Production</b>	35	32	38	33	33	36	37	32	35	37	36	55	45
<b>Volume of shipments</b>	39	31	44	32	40	38	35	28	28	38	38	49	50
<b>Volume of new orders</b>	34	30	35	38	37	36	36	36	21	40	40	50	45
<b>Backlog of orders</b>	19	15	16	22	16	19	23	23	24	18	22	26	12
<b>Number of employees</b>	15	8	14	17	15	5	9	7	5	23	13	15	24
<b>Average employee workweek</b>	12	8	20	10	13	7	20	8	8	11	13	15	8
<b>Prices received for finished product</b>	3	-5	4	11	-3	7	11	5	3	10	10	9	14
<b>Prices paid for raw materials</b>	19	25	24	25	20	22	25	27	17	32	29	27	40
<b>Capital expenditures</b>	8	1	2	9	3	13	13	16	12	15	15	16	19
<b>New orders for exports</b>	-1	-4	10	5	4	-2	9	6	5	14	13	11	10
<b>Supplier delivery time</b>	-2	-2	-1	9	6	7	12	-3	5	2	8	1	6
<b>Inventories: Materials</b>	-11	-16	-14	-9	-6	0	-12	-14	-8	0	4	4	-1
<b>Inventories: Finished goods</b>	-14	-16	-5	-9	-4	5	-11	-9	0	3	-6	6	3



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