



News Release

Federal Reserve Bank of Kansas City

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Manufacturing in the Tenth Federal Reserve District weakened in December. However, despite sizable declines in many factory indicators, manufacturers' optimism about future activity remained nearly as high as in previous months.

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

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The December 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 in the Tenth Federal Reserve District weakened in December following fairly stable activity during the fall. Production, new orders, and capital expenditures all fell back below year-ago levels, and employment continued to decline. Still, optimism about future factory activity remained nearly as high as in previous months. While production versus a month ago fell sharply, the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons. Month-over-month production also fell sharply last December, suggesting some of the decline last month may have been due to seasonal factors. 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 fell to -10 in December, about the same level as in the third quarter (Tables 1 & 2). Production had risen above year-ago levels in October and November and was showing signs of stabilizing before the December decline. Both durable and nondurable goods-producing plants reported a fall in production, and activity was at or below year-ago levels throughout the district.

Like production, most other year-over-year indexes of factory activity declined in December. The volume of shipments and volume of new orders at district firms fell back below year-ago levels after posting fairly positive readings in November, and the index for capital expenditures became negative again after reaching zero for the first time since early 2000 last month. The year-over-year employment index fell to its lowest level since May and the index for average employee workweek also became more negative.

As in November, the year-over-year inventory indexes were both below zero in December. The index for inventories of finished goods remained only slightly negative, while the index for inventories of raw materials fell further below zero. The fact that manufacturers have been keeping tight control over inventories suggests that any future increases in demand may translate into higher production.

The gap between the year-over-year price indexes was similar to November after increasing considerably in October. The net percentage of firms reporting raw materials price increases rose slightly to 33, while the index for finished goods prices edged up to -8, the highest reading since September. The persistent gap between the two price indexes suggests firms continue to have difficulties passing cost increases through to customers.

Despite sizable declines in many factory indicators, manufacturers' optimism about future activity fell only slightly in December, suggesting the downturn for the month may be an aberration. The future production index edged down to 32 for the month, down from 35 in November and 34 in October but higher than during the summer. Expectations for future shipments and new orders also remained above August and September levels despite slight declines in December. The future employment and future capital expenditures indexes both fell as well, but were still slightly positive. As for prices, the future raw materials price index edged up for the second straight month, while the future finished goods price index fell back below zero, suggesting firms expect continued pressure on profits in the near future.

Table 1

Summary of Tenth District Manufacturing Conditions, December 2002

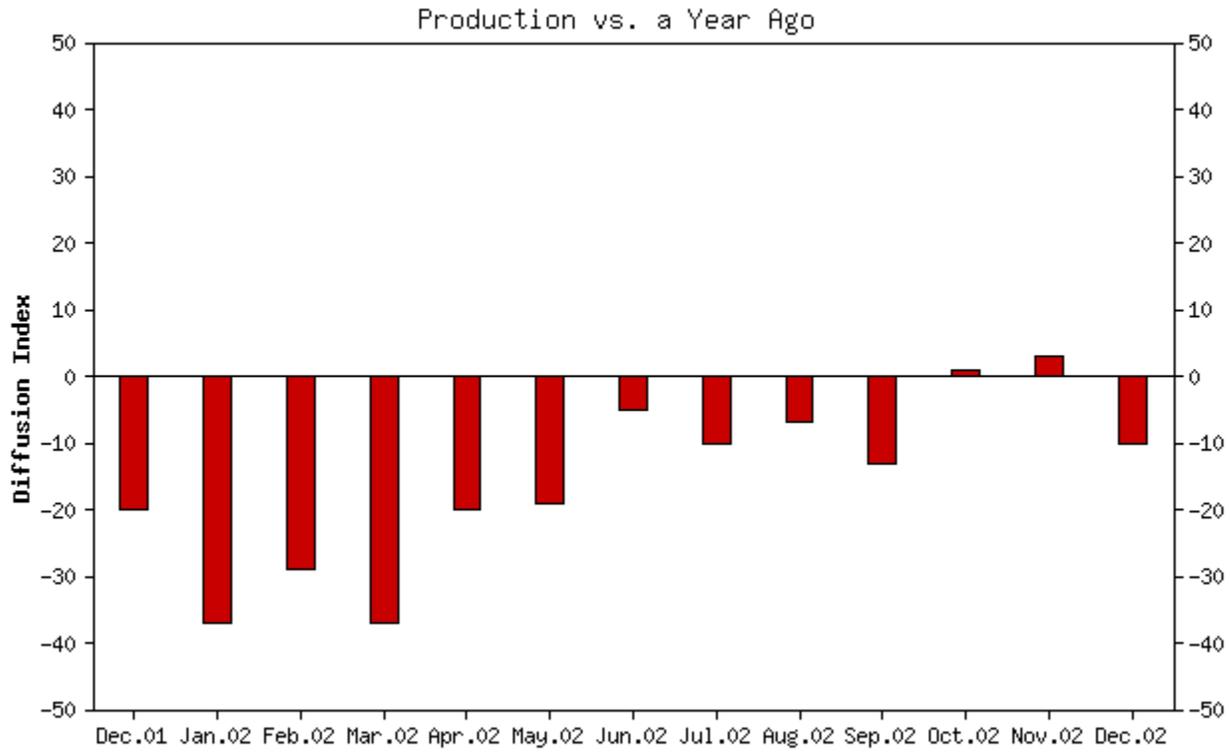
	December vs. November (percent, not seasonally adjusted)				December vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
Plant Level Indicators												
Production	21	36	41	-20	30	29	40	-10	53	23	21	32
Volume of shipments	29	29	41	-12	30	27	42	-12	53	21	22	31
Volume of new orders	25	32	41	-16	30	32	36	-6	48	31	18	30
Backlog of orders	16	38	42	-26	23	36	36	-13	35	41	20	15
Number of employees	8	65	26	-18	14	33	51	-37	27	53	19	8
Average employee workweek	11	58	30	-19	17	50	32	-15	25	56	17	8
Prices received for finished product	3	83	12	-9	25	40	33	-8	12	67	17	-5
Prices paid for raw materials	15	79	4	11	47	37	14	33	33	58	8	25
Capital expenditures					21	42	30	-9	21	52	20	1
New orders for exports	11	61	14	-3	12	61	13	-1	8	68	12	-4
Supplier delivery time	7	83	5	2	8	78	8	0	5	84	7	-2
Inventories:												
Materials	14	53	31	-17	21	41	34	-13	12	58	28	-16
Finished goods	17	44	35	-18	27	42	28	-1	16	50	32	-16

* 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 December survey included 96 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

	Dec'01	Jan'02	Feb'02	Mar'02	Apr'02	May'02	Jun'02	Jul'02	Aug'02	Sep'02	Oct'02	Nov'02	Dec'02
Versus a Month Ago (not seasonally adjusted)													
Production	-21	6	3	24	18	19	6	8	13	3	13	-2	-20
Volume of shipments	-14	-4	-7	33	13	29	9	6	7	13	5	1	-12
Volume of new orders	-25	11	-3	27	16	22	8	4	14	4	13	2	-16
Backlog of orders	-19	0	-8	4	-3	-3	-15	-4	-1	-14	-3	-4	-26
Number of employees	-22	-8	-9	2	1	0	8	-3	-5	-5	-9	-10	-18
Average employee workweek	-13	-3	7	6	-2	3	0	0	-1	4	4	-3	-19
Prices received for finished product	-5	-9	-8	0	-3	-8	-11	-6	-9	-5	-12	-10	-9
Prices paid for raw materials	2	1	8	17	21	19	17	22	17	16	9	9	11
Capital expenditures	n/a												
New orders for exports	-12	-2	-6	8	6	3	-4	1	-7	-4	1	-5	-3
Supplier delivery time	-1	3	5	10	4	5	6	2	6	3	-1	-3	2
Inventories: Materials	-29	3	-19	-4	-11	4	-13	-1	11	-13	-12	0	-17
Inventories: Finished goods	-24	0	5	3	0	9	-10	8	4	-2	-2	-1	-18
Versus a Year Ago													
Production	-20	-37	-29	-37	-20	-19	-5	-10	-7	-13	1	3	-10
Volume of shipments	-6	-36	-27	-37	-19	-11	-13	-7	-9	-9	0	9	-12
Volume of new orders	-20	-30	-29	-36	-12	1	-13	-6	-3	-13	6	9	-6
Backlog of orders	-21	-27	-24	-23	-25	-22	-24	-22	-17	-13	-8	-5	-13
Number of employees	-41	-41	-46	-41	-37	-46	-28	-27	-30	-31	-29	-13	-37
Average employee workweek	-24	-20	-29	-22	-34	-20	-18	-13	-15	-10	-6	-5	-15
Prices received for finished product	5	2	6	-6	-5	-7	-13	-8	-6	-8	-22	-12	-8
Prices paid for raw materials	0	-2	23	24	18	11	26	32	33	31	36	27	33
Capital expenditures	-24	-21	-36	-39	-30	-28	-21	-7	-7	-24	-12	0	-9
New orders for exports	-8	-8	-12	-10	-7	-3	-6	-6	-4	-9	1	0	-1
Supplier delivery time	-1	-7	-2	6	4	3	8	5	3	1	-1	-4	0
Inventories: Materials	-27	-33	-30	-27	-20	-18	-26	-28	-7	-7	9	-4	-13
Inventories: Finished goods	-27	-34	-17	-15	-13	2	-18	-13	-5	1	9	-2	-1
Expected in Six Months (not seasonally adjusted)													
Production	22	33	32	42	36	15	20	24	25	25	34	35	32
Volume of shipments	29	41	34	45	37	35	24	28	24	20	35	39	31
Volume of new orders	19	28	37	44	36	38	27	36	27	19	36	34	30
Backlog of orders	2	5	18	13	12	32	13	7	11	6	10	19	15
Number of employees	-6	-5	15	19	21	8	4	4	12	3	11	15	8
Average employee workweek	-1	4	3	18	18	11	5	-1	4	1	8	12	8
Prices received for finished product	13	0	6	12	18	12	0	4	4	-7	-12	3	-5
Prices paid for raw materials	21	13	25	30	38	30	27	34	36	20	15	19	25
Capital expenditures	-14	-9	-7	0	5	12	12	8	8	-3	4	8	1
New orders for exports	0	1	3	13	6	12	8	9	5	-2	4	-1	-4
Supplier delivery time	3	3	5	4	11	8	9	10	10	5	-4	-2	-2
Inventories: Materials	-7	-16	-3	4	-2	0	-1	-6	-3	-8	-3	-11	-16
Inventories: Finished goods	-15	-21	3	7	0	11	-2	4	7	-8	0	-14	-16



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