



News Release

Federal Reserve Bank of Kansas City

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FOR RELEASE Tuesday, October 14, 2003
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Manufacturing activity in the Great Plains and Rocky Mountain region encompassed by Tenth Federal Reserve District continued expanding in September. Manufacturers also remained quite optimistic about future factory activity, suggesting they expect strong expansion to continue in the six months ahead.

A summary of the September 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 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 continued to expand in September. The year-over-year production and new orders indexes increased further, and capital expenditures rose above year-ago levels for the first time in three years. In addition, expectations for future factory activity remained high. Month-over-month indexes for production, shipments, and new orders also rose strongly, and the month-over-month employment index was positive for the third month in a row. However, the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on 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.

The net percentage of firms reporting year-over-year increases in production rose to 17 in September, up from 8 in August and the highest reading since late 1999 (Tables 1 & 2). The rise in the production index was due to improvement at durable goods-producing firms, although activity at nondurable goods-producing plants remained solid as well. 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 in all district states.

In addition to the production index, most other year-over-year indexes of factory activity improved in September as well. Indeed, the new orders and shipments indexes rose to their highest levels in more than five years, and the capital spending index turned positive for the first time since early 2000. Indexes for backlog of orders and average employee workweek also rose moderately from August's solid readings, and both of the inventory indexes—for raw materials and finished goods—became less negative. A notable exception to the improvement in year-over-year indexes in September was the employment index, which slipped from -8 to -13, although this reading was still higher than in July.

The year-over-year price indexes both eased somewhat after rising in August. The raw materials price index fell back to levels of May, June, and July, but remained relatively high at 30. Meanwhile, the finished goods index edged back below zero after turning positive in August for the first time since early 2002. The lack of a measurable increase in finished goods prices even as materials prices have continued to rise suggests firms are still having sizable difficulties passing cost increases through to customers.

Tenth District manufacturers remained quite optimistic about future factory activity in September. The future production, shipments, and new orders indexes were virtually unchanged from August's high readings, suggesting firms expect strong expansion to continue in the six months ahead. Firms also plan to modestly increase employment and investment. Although the future employment index fell somewhat in September, it remained higher than in the spring and early summer. Meanwhile, the future capital spending index was similar to its readings in the mid-teens from the previous five months. Given their expectations for strong future production and sales, firms no longer plan to trim inventories of raw materials, as they have done for most of the past few years. The future price indexes were largely unchanged in September, with prices for raw materials expected to continue to grow faster than finished goods prices.

Table 1

Summary of Tenth District Manufacturing Conditions, September 2003

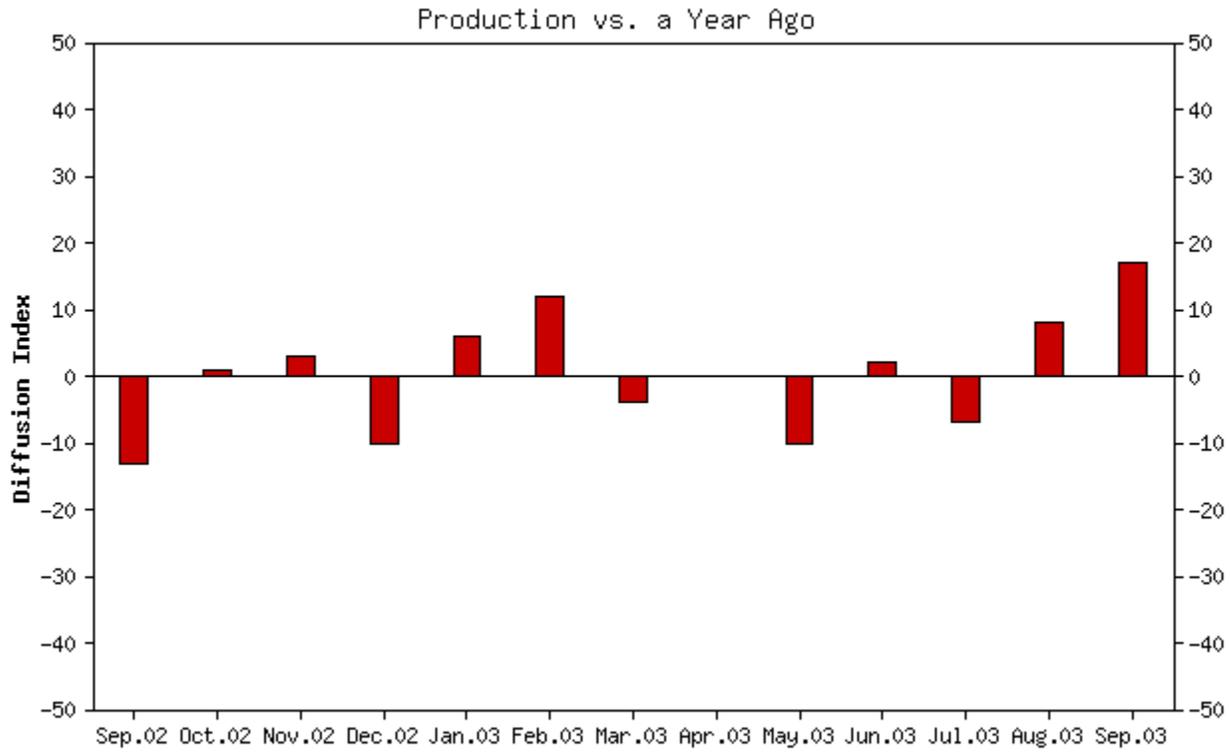
	September vs. August (percent, not seasonally adjusted)				September vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
Plant Level Indicators												
Production	46	36	15	31	41	32	24	17	50	32	14	36
Volume of shipments	48	30	18	30	42	31	22	20	50	33	12	38
Volume of new orders	45	35	14	31	44	35	13	31	49	36	9	40
Backlog of orders	26	45	24	2	33	41	21	12	36	44	14	22
Number of employees	25	58	14	11	25	33	38	-13	28	52	15	13
Average employee workweek	33	55	8	25	27	57	10	17	22	63	9	13
Prices received for finished product	10	75	11	-1	24	48	25	-1	25	57	15	10
Prices paid for raw materials	19	74	3	16	44	37	14	30	35	56	6	29
Capital expenditures					25	58	13	12	27	56	12	15
New orders for exports	10	75	8	2	13	66	13	0	18	69	5	13
Supplier delivery time	8	84	3	5	11	76	8	3	13	78	5	8
Inventories:												
Materials	18	57	22	-4	25	41	32	-7	20	60	16	4
Finished goods	19	50	27	-8	25	41	30	-5	16	55	22	-6

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

Table2
Historical Manufacturing Survey Indexes

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



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