



News Release

Federal Reserve Bank of Kansas City

Kansas City, Missouri 64198

Phone (816) 881-2683

News Release
Federal Reserve Bank of Kansas City
Kansas City, Missouri 64198
Phone (816) 881-2683
Fax (816) 881-2569

FOR RELEASE Monday, February 14, 2005
EMBARGOED FOR 11:00 A.M. EST

FOR RELEASE MONDAY, FEBRUARY 14
EMBARGOED FOR 11 A.M. ET

Manufacturing activity in the Great Plains and Rocky Mountain region encompassed by Tenth Federal Reserve District remained strong in January and plant managers' expectations for future activity remained high.

A summary of the January 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 January 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 Manufacturing

by Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District remained strong in January. While several year-over-year indexes--- including production--- fell somewhat from record or near-record highs in December, a number of other indexes posted solid gains. In addition, expectations for future factory activity were still very high. The year-over-year price indexes both rose, with the index for finished goods prices reaching its highest level in the ten-year history of the survey. Expectations for prices in six months also remained elevated. Month-over-month indexes in the survey were mixed in January, but the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons.

The net percentage of firms reporting year-over-year increases in production fell to 37 in January, down from 50 in December and the lowest reading since last May (Tables 1 & 2). A smaller net percentage of both durable- and nondurable- goods-producing firms than in December reported year-over-year increases in production. While sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that the decline in the overall production index was due to a smaller number of Colorado and western Missouri firms reporting year-over-year increases in production. Even so, the index remained relatively high by historical standards, and production was still above year-ago levels in all district states.

Other year-over-year indexes of factory activity were mixed in January. The shipments index eased from 52 to 47 and the new orders index fell to 45 from a record-high of 52 in December. Likewise, the employment index dropped quite a bit after rising to a nine-year high in last month's survey. On the other hand, however, the workweek and backlog indexes both rose, and the inventory indexes--- for both raw materials and finished goods--- each jumped more than 10 percentage points to reach all-time highs.

The year-over-year price indexes both increased in January after largely holding steady in recent months. The raw materials price index rose from 75 to 81, its highest reading since last July. And the finished goods price index jumped from 41 to 55, easily its highest reading in the ten-year history of the survey. The larger increase in the finished goods price index may suggest an increase in pricing power on the part of some manufacturers. However, the still-sizable gap between the two price indexes suggests a number of firms are still having difficulties passing cost increases through to customers.

Plant managers' expectations for future factory activity remained high. The six-month-ahead production index rose to 46, its highest reading since last June, and the future shipments and orders indexes were about as strong as in the previous two months. In addition, the future index for new orders for exports rose to its highest level since early 2000, and the future capital spending index remained solid. On the negative side, however, the future employment index edged down for the third straight month. Firms appear to plan to meet some of their future production needs by having current employees work longer hours, as the future workweek index rose to its highest level ever. Finally, the future price indexes were largely unchanged from the past two months. Both indexes were near their record highs set in April 2004, but the gap between the two indexes remained sizable, suggesting some firms expect continued difficulties passing cost increases through to customers.

Table1

Summary of Tenth District Manufacturing Conditions, January 2005

	January vs. December (percent, not seasonally adjusted)				January 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	43	31	25	18	59	17	22	37	59	25	13	46
Volume of shipments	42	25	31	11	63	19	16	47	58	25	14	44
Volume of new orders	44	32	22	22	61	20	16	45	51	33	10	41
Backlog of orders	31	42	22	9	48	33	14	34	38	41	14	24
Number of employees	20	55	24	-4	38	41	20	18	33	46	17	16
Average employee workweek	22	56	20	2	40	47	11	29	31	54	10	21
Prices received for finished product	21	75	3	18	61	32	6	55	41	51	5	36
Prices paid for raw materials	47	50	1	46	84	10	3	81	64	29	4	60
Capital expenditures					34	49	14	20	36	47	13	23
New orders for exports	10	69	9	1	19	60	8	11	25	61	2	23
Supplier delivery time	16	80	2	14	31	60	7	24	15	76	6	9
Inventories:												
Materials	26	51	21	5	44	35	19	25	25	51	20	5
Finished goods	23	58	16	7	40	41	15	25	22	57	17	5

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

Table2

Historical Manufacturing Survey Indexes

	Jan'04	Feb'04	Mar'04	Apr'04	May'04	Jun'04	Jul'04	Aug'04	Sep'04	Oct'04	Nov'04	Dec'04	Jan'05
Versus a Month Ago (not seasonally adjusted)													
Production	17	14	27	28	23	26	20	15	20	20	6	2	18
Volume of shipments	12	19	37	36	14	25	14	25	23	3	4	-1	11
Volume of new orders	21	5	29	34	20	23	21	15	19	18	8	-1	22
Backlog of orders	7	2	10	28	22	4	13	-6	7	3	-3	-7	9
Number of employees	9	7	15	14	18	16	11	12	13	22	4	5	-4
Average employee workweek	9	6	11	17	15	16	21	17	6	12	5	-5	2
Prices received for finished product	9	5	17	28	22	9	16	14	16	15	9	12	18
Prices paid for raw materials	39	38	57	67	56	54	47	52	46	53	43	35	46
Capital expenditures	n/a												
New orders for exports	9	0	5	9	0	1	1	-6	0	3	5	6	1
Supplier delivery time	4	6	15	27	16	6	16	17	22	13	10	10	14
Inventories: Materials	9	11	3	15	13	-2	1	13	11	12	5	-5	5
Inventories: Finished goods	-6	3	-6	1	9	0	4	11	6	17	1	-2	7
Versus a Year Ago													
Production	24	27	31	43	35	51	46	50	48	41	44	50	37
Volume of shipments	27	32	34	45	39	46	49	55	51	42	47	53	47
Volume of new orders	30	38	29	52	45	47	51	52	50	42	44	52	45
Backlog of orders	22	25	21	31	33	28	37	27	31	23	30	29	34
Number of employees	-2	12	14	19	19	22	15	25	27	25	28	30	18
Average employee workweek	20	19	16	24	21	37	30	29	28	21	17	23	29
Prices received for finished product	8	11	19	37	34	34	42	37	38	41	40	40	55
Prices paid for raw materials	48	50	64	82	75	71	82	73	72	77	74	76	81
Capital expenditures	6	9	18	22	22	23	17	16	30	19	21	18	20
New orders for exports	8	7	10	9	3	2	5	8	7	6	8	12	11
Supplier delivery time	6	7	20	26	20	22	30	24	35	23	19	18	24
Inventories: Materials	-5	3	6	5	16	9	6	17	19	20	18	10	25
Inventories: Finished goods	-7	4	-5	-2	3	1	-3	9	13	12	16	15	25
Expected in Six Months (not seasonally adjusted)													
Production	33	43	40	46	36	48	40	39	39	39	38	41	46
Volume of shipments	39	42	45	53	35	44	36	40	38	35	43	41	44
Volume of new orders	38	39	36	46	28	47	36	39	38	37	44	43	41
Backlog of orders	25	23	25	26	17	29	16	9	17	20	26	28	24
Number of employees	12	13	19	28	18	16	15	30	23	26	23	21	16
Average employee workweek	9	10	7	12	5	13	18	14	8	8	6	15	21
Prices received for finished product	15	25	24	39	28	28	31	20	30	30	36	34	36
Prices paid for raw materials	42	48	55	65	57	49	61	55	54	59	59	56	60
Capital expenditures	16	23	22	34	25	23	18	19	25	25	24	20	23
New orders for exports	17	17	15	14	8	7	5	14	10	13	13	12	23
Supplier delivery time	3	5	14	11	13	1	11	14	14	16	8	5	9
Inventories: Materials	-9	-6	1	1	5	-6	-2	11	-5	4	-1	-1	5
Inventories: Finished goods	-12	-2	-10	-2	-2	2	0	9	4	0	1	-8	5

Production vs. a Year Ago

