



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Kansas City Federal Reserve District backed off a bit in January from advances made in the last half of 1999, but should pick up again by summer, according to a quarterly survey of manufacturers across the region. The survey takes a snapshot of manufacturing activity during the first month of each quarter by asking plant managers about a variety of manufacturing indicators.

According to the author of the survey, Chad Wilkerson, assistant economist, production at durable goods-producing plants remained solid, but the production index for plants producing nondurable goods fell to the lowest level in the six-year history of the survey. The dropoff in January was particularly evident in the food industry, as producers may have experienced some payback for consumer stockpiling heading into Y2K.

Optimism about future factory activity, however, continued to build among district manufacturers in January. After reaching a low of 27 in the fall of 1998, the index of future production has gradually risen, reaching 41 in January. This figure is similar to those posted in late 1997 and early 1998, before the Asian crisis began to have much of an effect on district producers.

In summary, plant managers in the Tenth District reported a somewhat sluggish month in

January, but most remain optimistic about future manufacturing activity in the region.

The January survey included 140 responses from manufacturing plants throughout the seven states of the Tenth District. A summary of the January survey is attached to this press release. A copy of the previous quarterly survey (October 1999) is also attached.

For more information about the quarterly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869.

The First Quarter 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>.

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M E M O R A N D U M T O T H E M E D I A

Revised Release Dates for Kansas City Fed's Manufacturing Survey

The Federal Reserve Bank of Kansas City has announced a revised schedule of the release dates for its quarterly survey covering manufacturing activity in the seven states of the Tenth Federal Reserve District. The survey is designed to track the performance of the region's manufacturing sector.

Approximately 275 manufacturing plants that are representative of the district's manufacturing sector make up the survey panel.

Upcoming survey results will be released to the news media on the following schedule:

- **First Quarter 2000 Wednesday, February 16, 2000**
- **Second Quarter 2000 Monday, May 15, 2000**
- **Third Quarter 2000 Wednesday, August 16, 2000**
- **Fourth Quarter 2000 Monday, November 13, 2000**

For more information about the manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869.

The manufacturing survey, as well as results from past surveys, can be obtained in electronic form from 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 backed off a bit in January from advances made in the last half of 1999 but should pick up again by the summer, according to a quarterly survey of manufacturers across the district. The survey takes a snapshot of manufacturing the first month of each quarter by asking plant managers in the region about a variety of manufacturing indicators (Table 1).

The net percentage of Tenth District firms reporting higher levels of production remained positive in January, but was down from the previous two quarterly surveys and well below levels reached earlier in the economic expansion (Chart 1).¹ Production at durable goods-producing plants remained solid, but the production index for plants producing nondurable goods fell to the lowest level in the six-year history of the survey. The dropoff in January was particularly evident in the food industry, as producers may have experienced some payback for consumer stockpiling heading into Y2K. Colorado, Missouri, Nebraska, and Oklahoma all experienced a drop in their monthly indexes, although the net percentage of Colorado and Oklahoma firms reporting higher production remained positive. Kansas' production index improved to a flat reading in January, following negative postings in the previous five surveys.

Several other important indicators suggested that factory activity expanded less in January than in October, including volume of shipments, backlog of orders,

and number of employees. For the second survey in a row, a significant percentage of firms also reported rising prices for raw materials. On the positive side, however, most indicators suggested that factory activity remained higher than a year ago, and the index of expected future production continued to creep upward after reaching a survey low in the fourth quarter of 1998. The outlook for manufacturing activity in the region therefore appears to be solid despite a sluggish January.

Indicators of recent activity

Growth in factory production and shipments in the district was weaker than in the previous survey. After posting its highest reading in a year and a half in October, the index of factory production fell back nearly to zero in January. In addition, the net percentage of firms reporting increases in volume of shipments was negative following positive readings in the previous two surveys. Despite the relatively weak month in January, however, production and shipments were both well above year-ago levels.

Most other indicators of factory activity were similar to previous surveys. The volume of new orders showed little change, and backlogs of orders continued to decline, posting a negative reading for the ninth consecutive survey. Managers again reported a small rise in new orders for exports, as world economic conditions continued to improve. The number of employees at district firms fell for the second straight survey, consistent with regional data published by the Bureau of Labor Statistics. Supplier delivery times were up again in January, while inventory levels of both raw materials and finished goods remained basically unchanged. One notable difference from the October survey was capital expenditures. After improving in October for the first time

¹ For the January 2000 survey, the Federal Reserve Bank of Kansas City began seasonally adjusting historical manufacturing survey data. Data for previous month indicators and six month ahead indicators were adjusted using the Census Bureau's X11 ARIMA procedure. As a result of these adjustments, references to historical indicators may be inconsistent with information published in previous surveys, which were based on unadjusted data.

Chart 1
Tenth District Manufacturing Production Index

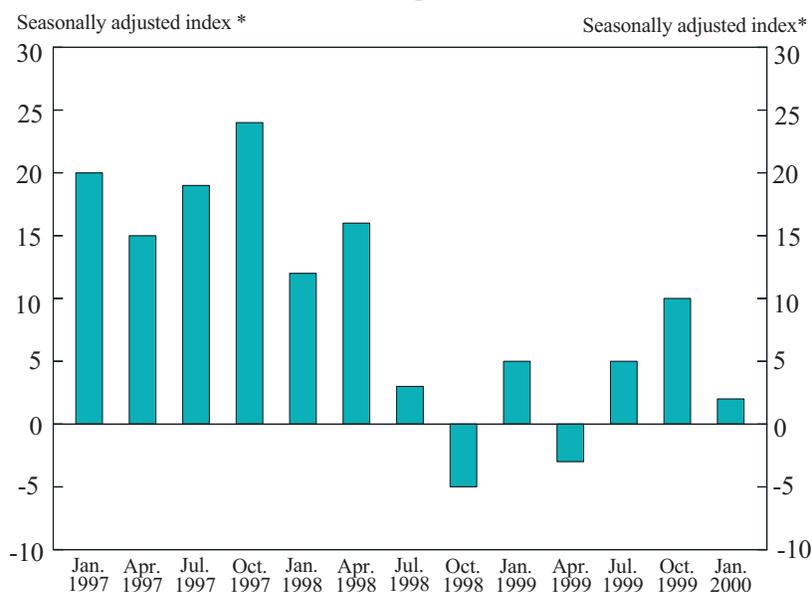


Table 1
Summary of Tenth District Manufacturing Conditions, January 2000

Plant level indicators	January vs. December (percent, seasonally adjusted)				January vs. Year ago (percent)				Expected in six months (percent, seasonally adjusted)			
	Increase	No change	Decrease	Index*	Increase	No change	Decrease	Index*	Increase	No Change	Decrease	Index*
Production	30	42	28	2	47	25	28	19	53	35	12	41
Volume of shipments	32	33	35	-3	48	26	26	22	60	29	11	49
Volume of new orders	30	39	31	-1	50	28	22	28	55	33	12	43
Backlog of orders	21	49	30	-9	36	39	25	11	32	54	14	18
Number of employees	23	45	32	-9	40	31	29	11	32	51	17	15
Average employee workweek	20	65	15	5	28	57	15	13	25	65	10	15
Prices received for finished product	9	81	10	-1	33	49	18	15	30	63	7	23
Prices paid for raw materials	28	66	6	22	56	32	12	44	44	51	5	39
Capital expenditures	—	—	—	—	25	46	29	-4	31	55	14	17
New orders for exports	14	75	11	3	29	58	13	16	30	66	4	26
Supplier delivery time	11	84	5	6	10	85	5	5	7	88	5	2
Inventories:												
Materials	23	54	23	0	36	36	28	8	21	52	27	-6
Finished goods	19	63	18	1	29	45	26	3	19	59	22	-3
Industry activity, national level	28	49	23	5	46	32	22	24	50	40	10	40

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

since mid-1998, the net percentage of firms reporting higher capital expenditures was back below zero in January.

Evidence of price pressures for raw materials persisted. The percentage of firms reporting higher raw material prices rose steadily throughout 1999 and remained high in January. Producers did not seem able to pass these increases on to their customers, as prices received for finished products remained generally subdued. Final product prices have now been above year-ago levels in each of the last three surveys, however, indicating that incremental increases have been achieved.

The outlook

Optimism about future factory activity continued to build among district manufacturers in January. After reaching a low of 27 in the fall of 1998, the index of future production has gradually risen, reach-

ing 41 in January. This figure is similar to those posted in late 1997 and early 1998, before the Asian crisis began to have much of an effect on district producers. Expectations for future shipments and new orders in January were at their highest levels since 1995. As for prices, a sizable percentage of firms continued to expect rising raw materials prices over the next six months. A somewhat smaller, but rising, share also expects continued improvement in prices received for finished products.

In summary, plant managers in the Tenth District reported a somewhat sluggish month in January, but most remain optimistic about future manufacturing activity in the region.

Chad R. Wilkerson is an assistant economist at the Federal Reserve Bank of Kansas City. Information on the development of the manufacturing survey appeared in "Tenth District Survey of Manufacturers" by Tim R. Smith, which was published in the Fourth Quarter 1995 issue of the *Economic Review*.

