News Release

Federal Reserve Bank of Kansas City

Kansas City, Missouri 64198
Phone (816) 881-2683
Fax (816) 881-2569

FOR RELEASE TUESDAY, FEBRUARY 20, 2001
EMBARGOED FOR 11:00 A.M. EST

Manufacturing activity in the Kansas City Federal Reserve District declined in January and was weaker than a year ago for the first time in the past six years, according to a quarterly survey of manufacturers across the region. Production fell at both durable and nondurable goods-producing plants in January. The survey takes a snapshot of manufacturing 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, nearly all indicators of monthly factory activity in the District were negative in January, including the indexes for shipments, new orders, employment, and new export orders.

Raw materials prices continued to rise faster than finished goods prices, suggesting that firms were still having difficulty passing cost increases on to customers.

In summary, expectations for future production were lower than in the previous survey. However, firms remain fairly optimistic about production in all states except Nebraska, where shortages of qualified workers likely continue to restrain production.

A summary of the January survey is attached to this press release. A copy of the previous quarterly survey (October 2000) is also attached. Data published in the previous survey may have been revised due to seasonal adjustment and late reporting by firms.

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**.

###

Survey of Tenth District Manufacturers

by Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District declined in January and was weaker than a year ago for the first time in the past six years, according to a survey of plant managers in the region. The survey takes a snapshot of activity during the first month of each quarter by asking respondents about a variety of manufacturing indicators (Table 1). Firms continued to have difficulties passing cost increases through to final product prices, and capital expenditures fell further behind previous year levels.

The net percentage of Tenth District firms reporting a monthly increase in production fell back below zero in January, following flat activity in October (Chart 1). Sluggish activity during the past three quarters has resulted in a negative year-over-year production index for the District, the first time that has happened in the six-year history of the survey. Production fell at both durable and nondurable goods-producing plants in January. The monthly index for nondurable goods production has been positive in only one of the past six surveys. Among district states, only Colorado had a positive monthly production index in January. All other district states reported moderate declines for the month. Compared with a year ago, production was down sharply in Kansas and western Missouri, and Nebraska's year-over-year production index was also negative. Production in Nebraska and western Missouri has not been higher than the previous year since early 2000. Colorado and Oklahoma's year-over-year indexes remained well above zero, but were down slightly from last summer.

Nearly all indicators of monthly factory activity in the District were negative in January, including the indexes for shipments, new orders, employment, and new export orders. The indexes for raw material and finished goods prices were similar to the previous two surveys. Raw materials prices continued to rise faster than finished goods prices, suggesting that firms were still having difficulty passing cost increases on to customers.

Indicators of recent activity

The monthly indexes for production, volume of shipments, and volume of new orders were all negative in January. The year-over-year indexes for production, shipments, and orders were also below zero, the first time that has happened for any of the three indexes in the six-year history of the survey. New orders for exports also fell during the month, although the year-over-year index remained slightly positive. Backlogs of orders remained negative, having risen above zero only once since 1997. Despite the dropoff

Chart 1
Tenth District Manufacturing Production Index

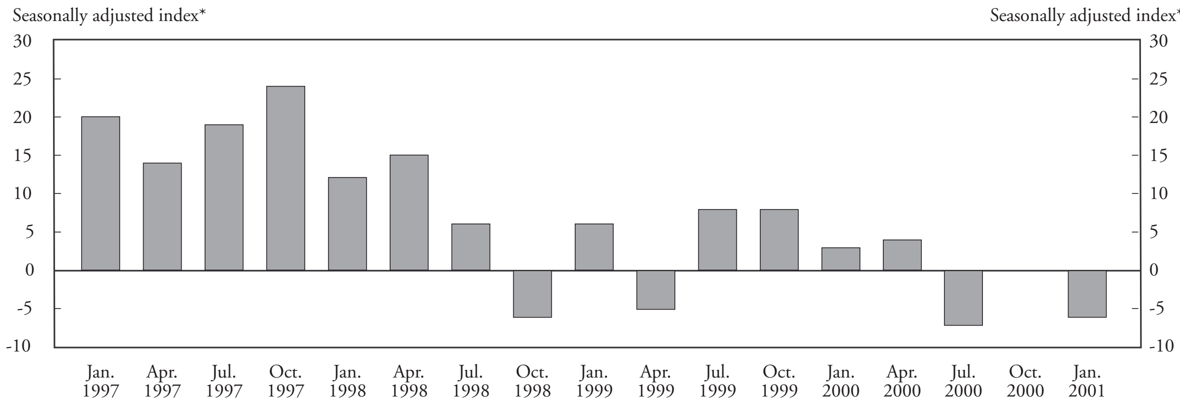

Table 1
Summary of Tenth District Manufacturing Conditions, January 2001

Plant level indicators	January vs. December (percent, seasonally adjusted) Increase	No change	Decrease	Index*	January vs. Year ago (percent) Increase	No change	Decrease	Index*	Expected in Six Months (percent, seasonally adjusted) Increase	No change	Decrease	Index*
Production	26	42	32	-6	32	24	44	-12	42	40	18	24
Volume of shipments	28	40	32	-4	35	24	41	-6	44	34	22	22
Volume of new orders	24	42	34	-10	34	25	41	-7	41	36	23	18
Backlog of orders	18	51	31	-13	22	42	36	-14	23	52	25	-2
Number of employees	29	35	36	-7	25	34	41	-16	32	42	26	6
Average employee workweek	12	65	23	-11	12	57	31	-19	17	62	21	-4
Prices received for finished product	13	77	10	3	35	39	26	9	21	62	17	4
Prices paid for raw materials	27	64	9	18	58	23	19	39	35	52	13	22
Capital expenditures	—	—	—	—	17	47	36	-19	22	54	24	-2
New orders for exports	8	80	12	-4	20	64	16	4	18	72	10	8
Supplier delivery time	10	82	8	2	14	72	14	0	4	87	9	-5
Inventories: Materials	21	53	26	-5	27	38	35	-8	16	56	28	-12
Finished goods	25	49	26	-1	29	37	34	-5	12	58	30	-18
Industry activity, national level	20	47	33	-13	23	26	51	-28	33	44	23	10

* 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 more widespread are increases among respondents. When index values are closer to -100, the more widespread are decreases.
Note: The January survey included 143 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

in production and shipments in January, inventories of both raw materials and finished goods continued to edge down.

The monthly index for number of employees remained negative, as it has been for the last year and a half. The January decline in employment caused the year-over-year index to fall further below zero, reaching the lowest level in the history of the survey. Average employee workweek also continued to decline, and was substantially lower than a year ago.

Monthly price indexes for both raw materials and finished products were similar to the previous two surveys, with a considerably larger net percentage of firms reporting increases in input prices than increases in output prices. The sizable gap between the two indexes suggests that firms continue to have difficulties passing cost increases through to customers. The year-over-year indexes for both materials and finished goods prices have eased somewhat since last summer. As in the case of the monthly indexes, however, the materials prices index continued to exceed the finished goods index by a wide margin.

The year-over-year index for capital expenditures has become increasingly negative over the past three surveys. The index slipped another 8 points in January, reaching its lowest point in the history of the survey.

The outlook

Optimism about future production weakened again in January after rebounding somewhat in October. Expectations for future shipments and new orders fell to the lowest levels since the Asian financial crisis in late 1998, although they remained well above zero. The outlook for new orders for exports was also the weakest since the onset of the Asian crisis. Not surprisingly, the backlog of orders is expected to decline over the next six months. In addition, slightly more firms expect to decrease capital expenditures over the next six months than expect to increase expenditures. Such softness in capital spending plans has been evident only one other time in the history of the survey—at the height of the Asian crisis.

Firms expect to increase employment levels slightly over the next six months, although the average workweek is expected to edge down. As they have throughout the last three years, firms intend to continue trimming inventories of both raw materials and finished products.

Price pressures for raw materials are expected to ease somewhat but remain relatively high. Firms expect to continue having difficulties passing such cost increases through to customers.

Within the district, expectations for future production were lower than in the previous survey. However, firms remain fairly optimistic about production in all states except Nebraska, where shortages of qualified workers likely continue to restrain production.

In summary, plant managers in the Tenth District reported a generally weak manufacturing sector in January and were less optimistic about future activity than in the recent past. In addition, difficulties passing cost increases through to final product prices are expected to continue.

SURVEY OF TENTH DISTRICT MANUFACTURERS—OCTOBER, 2000

Chart 1
Tenth District Manufacturing Production Index

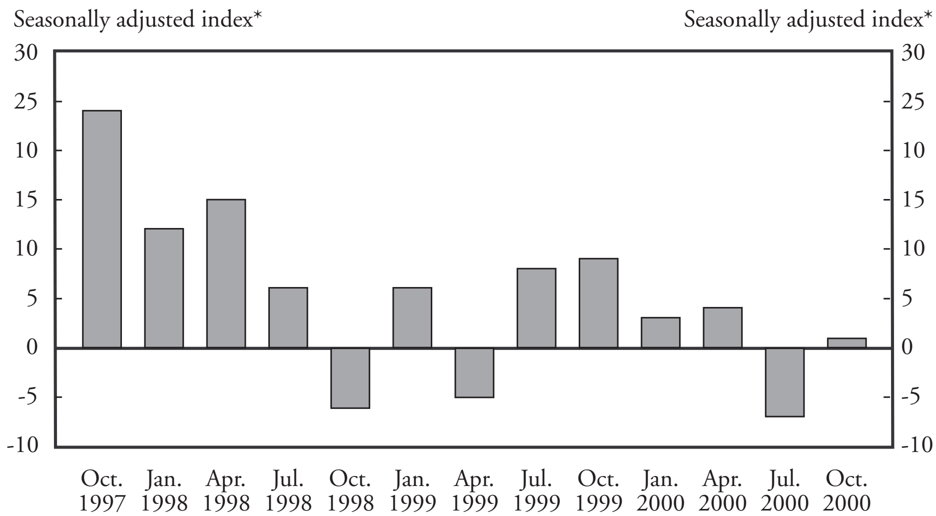

Table 1
Summary of Tenth District Manufacturing Conditions, October 2000

	October vs. September (percent, seasonally adjusted)				October vs. Year ago (percent)				Expected in Six Months (percent, seasonally adjusted)			
Plant level indicators	Increase	No change	Decrease	Index*	Increase	No change	Decrease	Index*	Increase	No change	Decrease	Index*
Production	30	41	29	1	41	24	35	6	50	35	15	35
Volume of shipments	33	37	30	3	41	24	35	6	56	28	16	40
Volume of new orders	37	36	27	10	37	29	34	3	48	35	17	31
Backlog of orders	23	50	27	-4	29	40	31	-2	29	51	20	9
Number of employees	28	28	44	-16	27	35	38	-11	33	45	22	11
Average employee workweek	10	70	20	-10	17	55	28	-11	22	64	14	8
Prices received for finished product	13	79	8	5	32	49	19	13	24	64	12	12
Prices paid for raw materials	26	68	6	20	61	27	12	49	36	54	10	26
Capital expenditures	—	—	—	—	21	47	32	-11	31	53	16	15
New orders for exports	16	74	10	6	23	64	13	10	23	71	6	17
Supplier delivery time	4	92	4	0	11	80	9	2	6	86	8	-2
Inventories: Materials	24	47	29	-5	34	35	31	3	20	52	28	-8
Finished goods	23	46	31	-8	29	42	29	0	22	49	29	-7
Industry activity, national level	19	59	22	-3	36	33	31	5	39	44	17	22

* 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 more widespread are increases among respondents. When index values are closer to -100, the more widespread are decreases.
Note: The October survey included 134 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.