



News Release

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Manufacturing activity in the Kansas City Federal Reserve District continued to decline in April with monthly and year-over-year indexes for most factory indicators at or near survey lows, according to a quarterly survey of manufacturers across the region. Expectations for future production remained somewhat subdued as firms continued to cut back on capital spending. The survey takes a snapshot of manufacturing the first month of each quarter by asking plant managers about a variety of manufacturing indicators.

A summary of the April survey is attached to this press release. A copy of the previous quarterly survey (January 2001) 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>.

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Survey of Tenth District Manufacturers

by Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District continued to decline in April, 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). Monthly and year-over-year indexes for most factory indicators were at or near survey lows in April, and expectations for future production remained somewhat subdued as firms continued to cut back on capital spending.

The net percentage of Tenth District firms reporting a monthly increase in production was at its lowest level in the near seven-year history of the survey in April, posting an even more negative reading than in January (Chart 1). The year-over-year production index was also negative for the second straight survey, following positive readings throughout the survey's first six years. As in January, the steepest production declines occurred at plants producing durable goods. The production index for plants producing nondurable goods remained just slightly negative. Among district states, only Missouri had a positive monthly production index in April, and only Oklahoma experienced a year-over-year increase in output. Production in Colorado, Kansas, and Nebraska fell sharply during the month. Incidentally, new claims for unemployment insurance in these three states rose considerably more than in Missouri and Oklahoma in April, according to the Department of Labor.

In addition to production, most other indicators of monthly factory activity in the district became increasingly negative in April, including the indexes for shipments, new orders, and employment. On a more positive note, the indexes for raw materials and finished goods prices were lower than

in previous surveys, although material prices continued to rise moderately.

Indicators of recent activity

The monthly indexes for production, volume of new orders, and backlog of orders all reached survey lows in April. Volume of shipments and new orders for exports also fell for the second straight survey. For the first time in the history of the survey, the year-over-year indexes for all five of these indicators were below zero. Despite the dropoff in production, the index for inventories of raw materials fell again in April. This index has not been positive since late 1998, likely reflecting managers' increasing adeptness at using just-in-time inventory management. Supplier delivery times were unchanged, as were inventories of finished products.

Consistent with recent increases in new claims for unemployment insurance, the monthly indexes of number of employees and average employee workweek also reached survey lows in April. The year-over-year indexes for both employment and workweek were highly negative, reflecting monthly declines in each of the past four surveys.

The monthly price indexes for both raw materials and finished products were lower than in previous surveys. In fact, the monthly index for prices of finished goods was slightly negative in April. Year-over-year indexes for both price categories remained well above zero, however, with the index for material prices over twice that of finished goods, as firms continued to have difficulties passing cost increases through to customers.

The year-over-year index for capital expenditures was similar to the previous survey's highly

Tenth District Manufacturing Production Index

Seasonally adjusted index

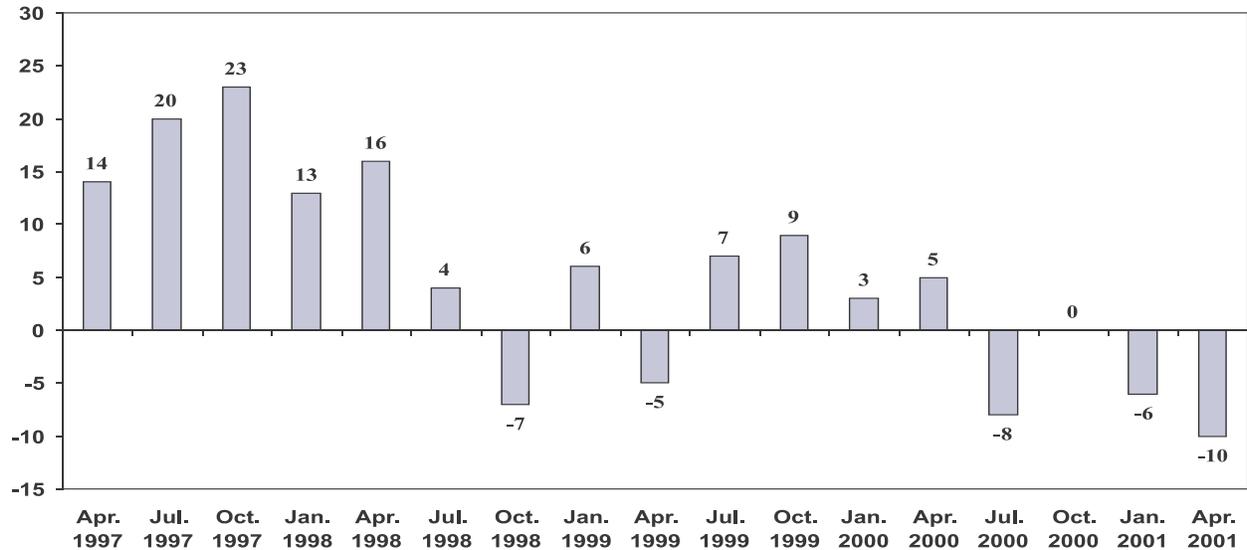


Table 1
Summary of Tenth District Manufacturing Conditions, April 2001

Plant level indicators	April vs. March (percent, seasonally adjusted)				April 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	23	45	33	-10	34	22	44	-10	42	37	21	21
Volume of shipments	28	40	32	-5	40	16	44	-4	50	28	22	28
Volume of new orders	23	41	36	-14	36	22	42	-6	44	36	20	24
Backlog of orders	15	48	37	-21	23	39	38	-15	19	50	22	-3
Number of employees	12	58	30	-18	24	31	45	-21	20	59	21	-1
Average employee workweek	10	66	24	-14	15	52	33	-18	14	72	13	1
Prices received for finished product	13	70	16	-3	38	36	26	12	25	58	17	8
Prices paid for raw materials	25	66	9	16	48	32	20	28	37	58	5	33
Capital expenditures	—	—	—	—	22	39	39	-17	23	56	21	2
New orders for exports	14	68	18	-5	17	63	20	-3	22	63	14	8
Supplier delivery time	6	87	6	0	9	78	13	-4	7	85	7	0
Inventories:												
Materials	20	54	25	-5	29	35	36	-7	20	51	29	-8
Finished goods	25	50	25	0	31	38	31	0	23	48	29	-6
Industry activity, national level	16	51	33	-17	27	27	46	-19	38	44	18	20

* 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 April survey included 114 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

negative reading, as firms continued to cut back on expansion plans. The capital spending index has now been negative for four straight surveys.

The outlook

Optimism about future production fell further in April, as the index for production expected in six months reached a survey low. However, with a reading of 21, considerably more firms continue to expect an increase in activity than expect decreases. In addition, the indexes for expected shipments and new orders were slightly higher than in January, and expectations for number of employees and average workweek were up considerably from the previous survey, although still close to zero.

Price pressures for raw materials are expected to intensify somewhat after recent easing. More managers than in the previous survey also expect finished product prices to increase in coming months. A sizable gap between the price indexes for materials and finished goods is expected to con-

tinue, however, as many firms do not anticipate being able to pass on further cost increases to customers.

Across district states, expectations for future production continued to soften, with particular weakness in Nebraska, which has experienced a large decline in activity over the past year.

In summary, plant managers in the Tenth District reported continued weak conditions in the manufacturing sector in April, and optimism about future production remained low. In addition, difficulties passing cost increases through to final product prices are expected to continue.

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*.

Chart 1
Tenth District Manufacturing Production Index

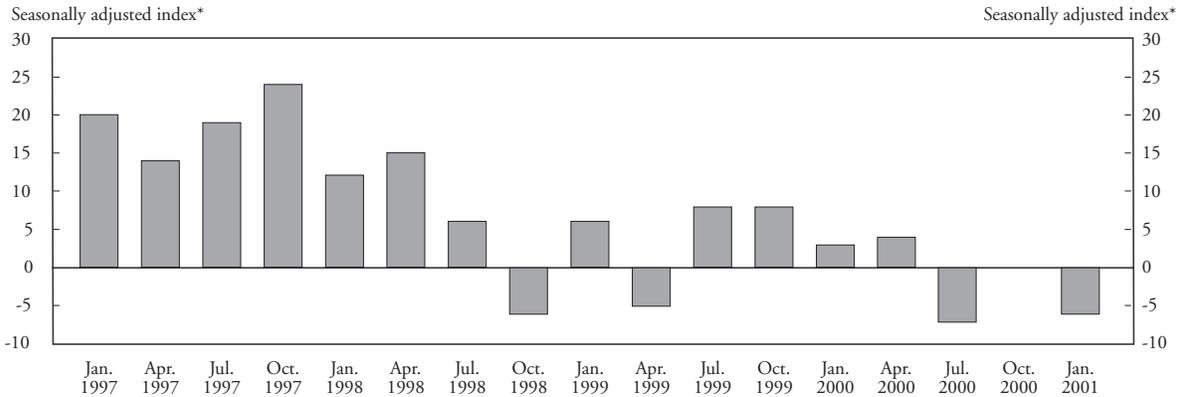


Table 1
Summary of Tenth District Manufacturing Conditions, January 2001

Plant level indicators	January vs. December (percent, seasonally adjusted)				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 Volume of shipments	26	42	32	-6	32	24	44	-12	42	40	18	24
Volume of new orders	28	40	32	-4	35	24	41	-6	44	34	22	22
Backlog of orders	24	42	34	-10	34	25	41	-7	41	36	23	18
Number of employees	18	51	31	-13	22	42	36	-14	23	52	25	-2
Average employee workweek	29	35	36	-7	25	34	41	-16	32	42	26	6
Prices received for finished product	12	65	23	-11	12	57	31	-19	17	62	21	-4
Prices paid for raw materials	13	77	10	3	35	39	26	9	21	62	17	4
Capital expenditures	27	64	9	18	58	23	19	39	35	52	13	22
New orders for exports	—	—	—	—	17	47	36	-19	22	54	24	-2
Supplier delivery time	8	80	12	-4	20	64	16	4	18	72	10	8
Inventories: Materials	10	82	8	2	14	72	14	0	4	87	9	-5
Finished goods	21	53	26	-5	27	38	35	-8	16	56	28	-12
Industry activity, national level	25	49	26	-1	29	37	34	-5	12	58	30	-18
	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.