



News Release

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FOR RELEASE WEDNESDAY, AUGUST 16, 2000

EMBARGOED FOR 11:00 A.M. EST

Manufacturing activity in the Kansas City Federal Reserve District dropped considerably in July, according to a quarterly survey of manufacturers across the region. 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, the net percentage of Tenth District firms reporting higher levels of production fell well below zero in July, reaching its lowest level in the six-year history of the survey. Activity declined at both durable and non-durable goods-producing plants, with the dropoff being much sharper at factories producing nondurable goods. Overall, production was similar to a year ago, however, following modest expansion in late 1999 and early 2000.

Indexes for volume of shipments, volume of new orders, and number of employees reached survey lows in July as well. On a positive note, price pressures, particularly for raw materials, appeared to ease after rising during most of the last year.

In summary, plant managers in the Tenth District reported a considerable slowdown in production in July and were much less optimistic than in the previous survey about activity throughout the rest of the year.

The July survey included 144 responses from manufacturing plants throughout the seven states of the Tenth District. A summary of the July survey is attached to this press release. A copy of the previous quarterly survey (April 2000) is also attached.

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

The Third 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

Following a year of modest growth, manufacturing activity in the Tenth Federal Reserve District dropped considerably in July, according to a survey of plant managers in the region. Managers also reported a slight decline in industry activity at the national level. 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).

The net percentage of Tenth District firms reporting higher levels of production fell well below zero in July, reaching its lowest level in the six-year history of the survey (Chart 1). Overall production was similar to a year ago, however, following modest expansion in late 1999 and early 2000. Activity declined at both durable and nondurable goods-producing plants, with the dropoff being much sharper at factories producing nondurable goods. Geographically, Colorado was the only state in the district with a positive production index in July. Oklahoma, which had posted the highest production index among district states in each of the past four surveys, experienced its first decline in activity since late 1998. Production in Kansas and western Missouri fell sharply, following modest declines in the previous survey. Nebraska's production index was negative for the fourth consecutive survey, and the decline in activity in the state has gradually become larger during the past year.

Several other important indicators of factory activity reached survey lows in July as well, including the indexes for volume of shipments, volume of new orders, and number of employees. On a positive note, price pressures, particularly for raw materials, appeared to ease after rising during most of the last year.

Indicators of recent activity

Like production, the volume of shipments and the volume of new orders fell significantly in July, pushing both indicators down to roughly year-ago levels. The number of employees and the average employee workweek also fell by the largest amount in survey history, although firms have been reducing their workforces throughout the past year. The backlog of orders dropped sharply, but not quite as much as during the Asian crisis of 1998. New orders for exports fell slightly following a year of recovery.

Despite the drop in production, inventories of raw materials fell for the seventh survey in a row, possibly reflecting greater reliance on "just-in-time" Internet purchasing among some firms. Supplier delivery time was virtually unchanged. Meanwhile, the fall in shipments in July led to a slight increase in inventories of finished products.

Prices pressures for raw materials, which had intensified in April following large increases in October and January, appeared to ease somewhat in July. However, a majority of firms continued to report that material prices were up from a year ago. The index of prices received for finished products was down slightly from the previous survey, although prices continued to rise steadily.

The year-over-year change in capital expenditures, which has bounced around since the onset of the Asian crisis, fell back below zero in July. The drop likely reflects the somewhat dimmer outlook for the district manufacturing sector for the rest of the year.

Chart 1
Tenth District Manufacturing Production Index

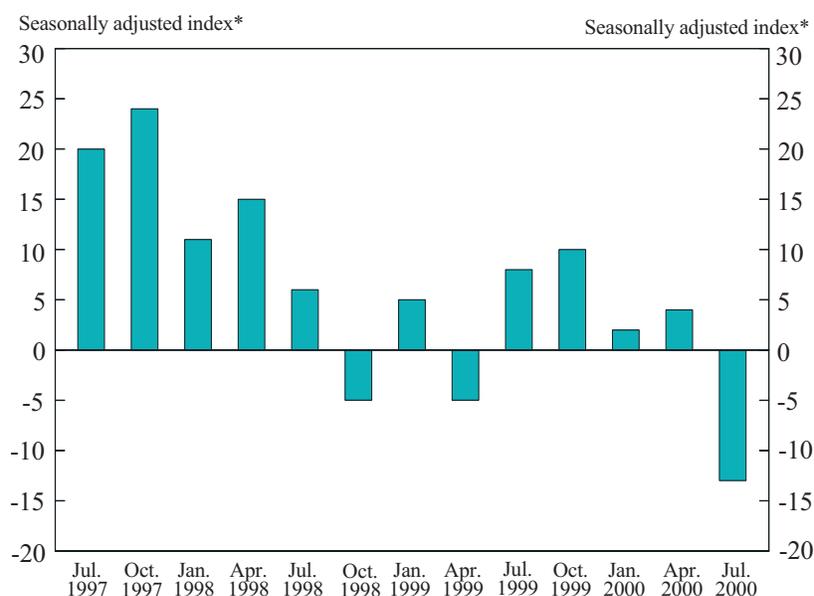


Table 1
Summary of Tenth District Manufacturing Conditions, July 2000

Plant level indicators	July vs. June (percent, seasonally adjusted)				July 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	24	39	37	-13	37	27	36	1	41	35	24	17
Volume of shipments	28	31	41	-13	40	23	37	3	44	33	23	21
Volume of new orders	30	33	37	-7	34	31	35	-1	39	45	16	23
Backlog of orders	19	45	36	-17	25	38	37	-12	27	52	21	6
Number of employees	17	52	31	-14	32	30	38	-6	29	44	27	2
Average employee workweek	10	65	25	-15	17	57	26	-9	19	66	15	4
Prices received for finished product	15	75	10	5	39	36	25	14	29	60	11	18
Prices paid for raw materials	26	65	9	17	60	27	13	47	38	52	10	28
Capital expenditures	—	—	—	—	24	43	33	-9	28	53	19	9
New orders for exports	11	76	13	-2	23	54	23	0	26	68	6	20
Supplier delivery time	6	89	5	1	10	79	11	-1	7	87	6	1
Inventories:												
Materials	21	51	28	-7	34	39	27	7	14	52	34	-20
Finished goods	25	53	22	3	35	35	30	5	17	54	29	-12
Industry activity, national level	20	55	25	-5	35	31	34	1	33	48	19	14

* 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 July survey included 144 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

The index of managers' perceptions of manufacturing activity at the national level was also negative in July, following positive readings in each of the past four surveys. Managers' viewed national activity as similar to a year ago.

The outlook

Optimism about future production, which was at pre-Asian crisis levels just six months ago, fell to easily its lowest point in survey history in July. However, the indexes of future production, shipments, and new orders all remained well above zero. Expectations about factory activity six months down the road was slightly higher among durable goods producers than at nondurable goods-producing plants, particularly in Colorado, which has a large number of high-tech manufacturers. Expectations were especially low in Kansas and Nebraska, states that have a larger share of nondurable goods-producing plants.

Contrary to many other indicators, new orders for exports are expected to remain fairly high heading into 2001. Firms also expect to continue reducing inventories of raw materials as they become more adept at e-business. Upward price pressures are expected to continue for both raw materials and finished goods, although the future index for both was down slightly from the April survey.

In summary, plant managers in the Tenth District reported a considerable slowdown in production in July and were much less optimistic than in the previous survey about activity throughout the rest of the year.

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*.

SURVEY OF TENTH DISTRICT MANUFACTURERS – APRIL, 2000

Chart 1
Tenth District Manufacturing Production Index

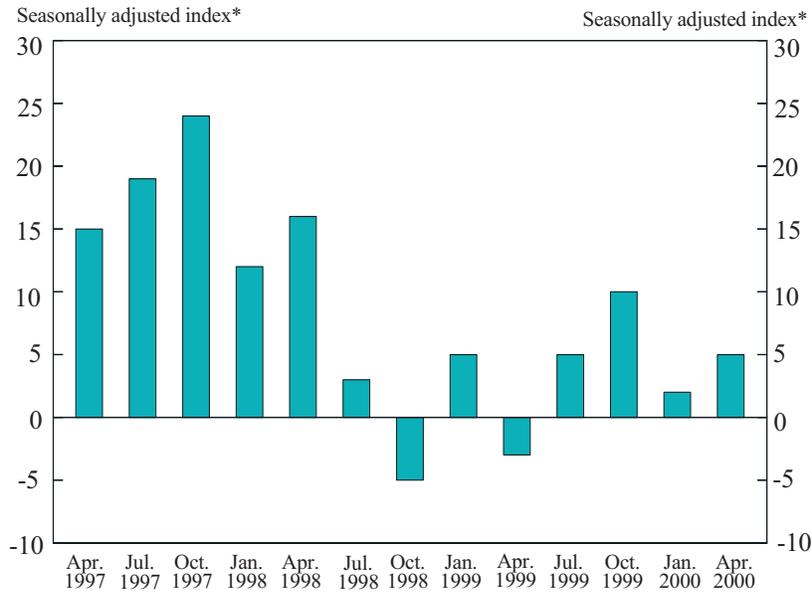


Table 1
Summary of Tenth District Manufacturing Conditions, April 2000

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	32	41	27	5	40	26	34	6	48	37	15	33
Volume of shipments	34	34	32	2	41	27	32	9	54	29	17	37
Volume of new orders	31	43	26	5	38	34	28	10	52	32	16	36
Backlog of orders	24	51	25	-1	31	41	28	3	31	50	19	12
Number of employees	23	47	30	-7	40	28	32	8	26	62	12	14
Average employee workweek	15	68	17	-2	25	53	22	3	17	70	13	4
Prices received for finished product	15	77	8	7	42	41	17	25	33	56	11	22
Prices paid for raw materials	39	54	7	32	62	29	9	53	43	49	8	35
Capital expenditures	—	—	—	—	29	48	23	6	33	54	13	20
New orders for exports	16	72	12	4	29	59	12	17	29	62	9	20
Supplier delivery time	5	92	3	2	14	82	4	10	6	89	5	1
Inventories:												
Materials	22	55	23	-1	33	35	32	1	16	56	28	-12
Finished goods	21	55	24	-3	31	39	30	1	15	58	27	-12
Industry activity, national level	28	52	20	8	42	34	24	18	40	46	14	26

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