



# News Release

## Federal Reserve Bank of Kansas City

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Manufacturing activity in the Kansas City Federal Reserve District was largely unchanged in October, and firms continued to have difficulties passing cost increases through to final product prices, 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, the net percentage of Tenth District firms reporting higher levels of production rose just slightly above zero in October, after falling below zero in July. Most other important indicators of monthly factory activity were also positive and higher in October than in July, including the indexes for volume of shipments, volume of new orders, and new orders for exports. An exception was the index for number of employees, which has been negative since late last year.

Optimism about future production rebounded in October, after falling to a survey low in July. The index for capital expenditures, however, became even more negative in October, which could make it difficult for solid productivity gains to continue.

In summary, plant managers in the Tenth District reported generally flat production in October and have slightly higher expectations about future activity than in the recent past. In addition, difficulties passing cost increases through to final product prices are expected to continue.

The October survey included 134 responses from manufacturing plants throughout the seven states of the Tenth District. A summary of the October survey is attached to this press release. A copy of the previous quarterly survey (July 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 Fourth 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

**M**anufacturing activity in the Tenth Federal Reserve District was largely unchanged in October, and firms continued to have difficulties passing cost increases through to final product prices, 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).

After falling below zero in July, the net percentage of Tenth District firms reporting higher levels of production rose just slightly above zero in October (Chart 1). A modest increase in activity at plants producing durable goods offset a small dropoff at factories producing nondurable goods. Nondurable goods production, however, stayed above year-ago levels. Overall production remained slightly higher than a year ago, with the district posting the same year-over-year index as in the previous two surveys. Among district states, only Oklahoma had a positive monthly production index in October, as it did throughout 1999 and 2000. Production in Kansas and western Missouri was basically flat, while Colorado and Nebraska reported production indexes well below zero for the month. Despite the flat to negative growth in most district states in October, production had fallen from a year ago only in Missouri.

Most other important indicators of monthly factory activity were positive and higher in October than in July, including the indexes for volume of shipments, volume of new orders, and new orders for exports. An exception was the index for number of employees, which has been negative since late last year. Monthly price indexes for both raw materials and finished products were similar to the previous survey, with the index for raw materials well above the index for finished products.

## *Indicators of recent activity*

The monthly indexes for production, volume of shipments, volume of new orders, and new orders for exports were all positive and between 8 and 11 points higher in October than in July. The year-over-year indexes for production, shipments, and orders were also positive, although by considerably less than earlier in the economic expansion. The monthly index for backlog of orders now has been negative in almost every survey since fall 1997, when the Asian economic crisis reduced the global demand for manufactured goods. Inventories of raw materials edged down again in October, while supplier delivery time remained unchanged. Inventories of finished goods also fell after rising moderately in July.

Chart 1  
Tenth District Manufacturing Production Index

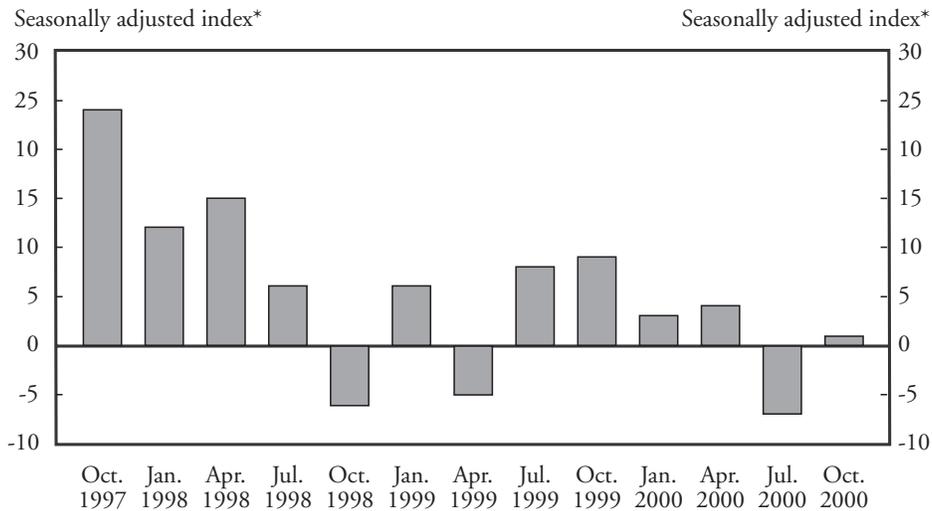


Table 1  
Summary of Tenth District Manufacturing Conditions, October 2000

Plant level indicators	October vs. September (percent, seasonally adjusted)				October 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	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.

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The monthly index for number of employees has become increasingly negative in 2000 and the monthly index for average employee workweek has been negative in the past three surveys. The year-over-year employee and workweek indexes became negative in July and fell further in October. The fact that production at district firms has remained positive compared with a year ago while employment has declined suggests that solid productivity gains have continued in the manufacturing sector.

The monthly price indexes for both raw materials and finished products were similar to the July survey but slightly below their April peaks. The year-over-year finished product price index similarly has receded since April. However, the year-over-year index of raw material prices remains near a five-year high, suggesting that firms continue to have difficulties passing cost increases through to final prices. The gap between the two year-over-year price indexes rose to 36 in October, the largest spread since 1995.

The year-over-year index for capital expenditures, which had fallen slightly in July after bouncing around for the previous year, fell somewhat further in October, reaching its lowest level in the six-year history of the survey. This recent decline in capital outlays could make it difficult for solid productivity gains to continue.

### *The outlook*

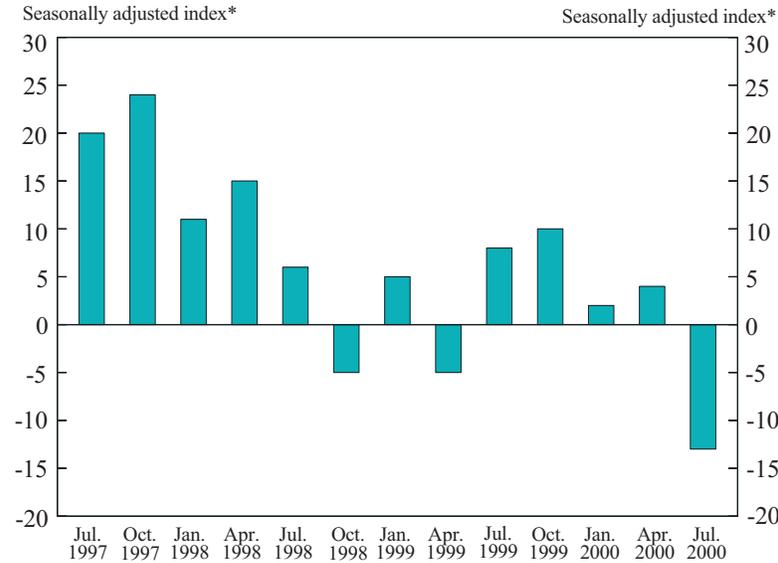
Optimism about future production rebounded in October, after falling to a survey low in July. The index for future shipments also was the highest since January. Expectations about the number of employees six months ahead remained modest but positive. Inventory levels are expected to continue falling, as firms continue to move toward “just-in-time” purchasing. Price pressures for both raw materials and finished product prices are expected to ease slightly, although the gap between the two is expected to persist.

Geographically, expectations for future production were the highest in western Missouri, followed closely by Oklahoma, Kansas, and Colorado. Nebraska’s index for future production remained well below the other states, likely due in part to the continued difficulties that state has had in finding qualified workers.

In summary, plant managers in the Tenth District reported generally flat production in October and have slightly higher expectations 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—JULY, 2000

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.