



News Release

Federal Reserve Bank of Kansas City

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FOR RELEASE Monday, August 13, 2001
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FOR RELEASE MONDAY, AUGUST 13, 2001
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Manufacturing activity in the Kansas City Federal Reserve District weakened further in July. While optimism about future production was lower than at any time in the survey's history, more firms continued to expect increased activity in six months than expected a decrease.

A summary of the July survey is attached to this press release. The manufacturing survey, which since October 1994 has been performed quarterly via mail, takes a snapshot of factory activity in the region by asking respondents about a variety of manufacturing indicators. Starting with this release, information about the Tenth District's manufacturing sector will be available each month, as follows:

Reference Period.....Release Date

July 2001.....Monday, August 13, 2001

August 2001.....Monday, September 10, 2001

September 2001.....Tuesday, October 9, 2001 (Columbus Day is on the 8th)

October 2001.....Tuesday, November 13, 2001 (Veteran's Day is on the 12th)

November 2001.....Monday, December 10, 2001

December 2001.....Monday, January 14, 2002

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The July 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 weakened further in July, according to a survey of plant managers in the region. Monthly and year-over-year indexes for factory production and shipments deteriorated, and the outlook for future activity became less positive as well. Capital expenditures remained below year-ago levels, although not by as much as in the previous two surveys.

The manufacturing survey, which since October 1994 has been performed quarterly via mail, takes a snapshot of factory activity in the region by asking respondents about a variety of manufacturing indicators. Starting with this release, information about the Tenth District's manufacturing sector will be available each month, based on a new monthly online survey that began in late July. Some caution should be taken in comparing the results of the current survey to previously published surveys. First, the respondent sample has changed somewhat with the new survey. Second, whereas previous data on monthly changes were seasonally adjusted, such data will now have to be reported without seasonal adjustment for some period of time due to the switch from quarterly to monthly reporting. The non-seasonally adjusted historical data is available on the Bank web site.

The net percentage of Tenth District firms reporting a monthly increase in production was at its lowest level in the seven-year history of the survey in July, posting an even more negative reading than in January and April (Table 1). The year-over-year production index also posted a highly negative reading, following moderately negative readings in the previous two surveys. The weakness in factory activity appeared to be spread evenly across durable and nondurable manufacturing.

Most other indicators of factory activity posted sizable declines in July as well. This was true of both the monthly and year-over-year indexes. In addition to production, the volume of shipments, volume of new orders, backlog of orders, number of employees, and average employee workweek at district firms all fell considerably. On a positive note, new orders for exports rose for the first time this year. In addition, the year-over-year index for capital expenditures was less negative than in the previous survey.

Inventories of both raw materials and finished goods dropped along with production, and were well below year-ago levels. Nondurable goods-producing plants (such as food processing plants and chemical manufacturers) appeared to experience slightly greater inventory declines than did durable-goods producing plants (such as machinery plants and fabricated metal manufacturers).

The monthly index of prices paid for raw materials fell to its lowest level in over two years in July yet remained slightly positive. Meanwhile, the monthly index of prices received for finished products was moderately negative following a flat reading in April. A sizable gap between the two year-over-year price indexes persisted, with material prices continuing to rise moderately and finished good prices declining slightly.

Optimism about future production was lower than at any time in the survey's history, although more firms continued to expect increased activity in six months than expected a decrease. Nondurable-goods producing plants were considerably more optimistic than durable goods producers about future production. The index for future capital expenditures was flat in July, following slightly negative readings in the previous two quarterly surveys. As for prices, firms expected both material prices and finished goods prices to rise in coming months, with more firms expecting material price increases than finished good price increases.

Table1
Summary of Tenth District Manufacturing Conditions, July 2001

Plant Level Indicators	July vs. June (Percent)				July vs. Year Ago (Percent)				Expected in Six Months (Percent)			
	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *
Production	18	42	39	-21	25	21	53	-28	37	36	25	12
Volume of shipments	18	34	46	-28	28	15	56	-28	39	36	24	15
Volume of new orders	18	39	42	-24	25	21	53	-28	34	43	21	13
Backlog of orders	16	43	36	-20	24	25	46	-22	27	39	30	-3
Number of employees	12	57	30	-18	24	19	56	-32	13	57	28	-15
Average employee workweek	6	74	18	-12	13	39	45	-32	13	62	22	-9
Prices received for finished product	9	74	16	-7	28	37	33	-5	25	59	15	10
Prices paid for raw materials	18	66	15	3	43	28	27	16	31	59	9	22
Capital expenditures					31	25	42	-11	25	48	25	0
New orders for exports	18	60	10	8	19	53	18	1	21	60	9	12
Supplier delivery time	4	87	3	1	10	77	9	1	4	83	9	-5
Inventories:												
Materials	13	46	37	-24	13	42	43	-30	6	59	34	-28
Plants finished goods	19	37	40	-21	22	34	42	-20	10	54	34	-24

* Diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicators 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 July survey included 66 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

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