

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING ACTIVITY DECLINED SLIGHTLY Federal Reserve Bank of Kansas City Releases October Manufacturing Survey

KANSAS CITY, Mo. - The Federal Reserve Bank of Kansas City released the October Manufacturing Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District manufacturing activity declined slightly in October, and producers' expectations for future activity fell considerably but remained slightly positive.

"We saw factories pull back this month for the first time in quite a while, which many firms attributed to the impact of the uncertain political and fiscal situation on customers' willingness to order" said Wilkerson. "Expectations also weakened considerably for production and employment but, encouragingly, factories' capital spending plans for early next year remained largely intact."

A summary of the October survey is attached. Results from past surveys and release dates for future surveys can be found at www.kansascityfed.org/research/indicatorsdata/mfg.

The Federal Reserve Bank of Kansas City serves the Tenth Federal Reserve District, encompassing the western third of Missouri; all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming; and the northern half of New Mexico. As part of the nation's central bank, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing financial services to depository institutions. More information is available online at www.kansascityfed.org.

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Survey of Tenth District Manufacturing

Tenth District manufacturing activity declined slightly in October, and producers' expectations for future activity fell considerably but remained slightly positive. Several producers commented on growing uncertainty related to the upcoming election and fiscal situation, which has put a hold on many customers' orders and spending. Price indexes were mixed, with minimal changes overall.

The month-over-month composite index was -4 in October, down from 2 in September and 8 in August, and the lowest in over three years (Tables 1 & 2, Chart). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Manufacturing slowed at most durable- and nondurable goods-producing plants, particularly among producers of machinery and electronic equipment. Most other month-over-month indexes also fell in October. The production index eased further from -4 to -6, and the new orders and order backlog indexes also declined. The employment index moved into negative territory for the first time this year, while the shipments index inched higher but still remained negative. The raw materials inventory index decreased from 7 to 2, but the finished goods inventory index was unchanged.

Most year-over-year factory indexes were stable or slightly higher than last month. The composite year-over-year index was unchanged at 11, while the production, shipments, and new orders indexes improved somewhat. The order backlog index moved back into positive territory, and the capital expenditures index edged up from 17 to 18. The new orders for exports index rose slightly, while the employment index eased for the second straight month. The raw materials inventory index fell from 11 to 5, and the finished goods inventory index also decreased.

After several months of generally favorable outlooks, most future factory indexes weakened considerably in October. The future composite index dropped from 16 to 3, and the future production, shipments, and order backlog indexes also decreased. The future new orders index posted its lowest level since May of 2009, and the future employment index dropped to a three-year low. In contrast, the future capital expenditures index increased after falling for two straight months. The future raw materials inventory index declined from 9 to -5, and the finished goods inventory index also fell.

Price indexes were mixed, with little change in most indexes. The month-over-month finished goods price index inched higher from 5 to 8, while the raw materials price index decreased for the first time in three months. The year-over-year raw materials index stayed flat at 60, but the finished goods index fell from 35 to 30. The future raw materials price index rose slightly, while the future finished goods price index edged lower, indicating fewer firms plan to pass recent cost increases through to customers.

Table1

Summary of Tenth District Manufacturing Conditions, October 2012

Plant Level Indicators	October vs. September (percent) ¹					October vs. Year Ago (percent) ¹					Expected in Six Months (percent) ¹				
	No		Diff		SA	No		Diff			No		Diff		SA
	Increase	Change	Decrease	Index ²	Index ³	Increase	Change	Decrease	Index ²		Increase	Change	Decrease	Index ²	Index ³
Composite Index				-7	-4				11				4	3	
Production	22	44	34	-12	-6	48	22	31	17	40	35	25	15	9	
Volume of shipments	24	41	35	-10	-6	48	24	27	22	41	33	25	16	10	
Volume of new orders	24	35	40	-15	-11	40	31	30	10	39	33	28	10	8	
Backlog of orders	19	43	35	-16	-15	30	39	29	1	25	46	26	-1	-2	
Number of employees	14	64	23	-9	-6	39	35	27	12	24	56	19	5	4	
Average employee workweek	10	66	23	-12	-11	20	56	23	-2	13	70	16	-3	-3	
Prices received for finished product	13	78	7	6	8	46	37	16	30	32	58	9	23	23	
Prices paid for raw materials	29	60	9	20	27	70	19	10	60	61	31	6	55	53	
Capital expenditures						35	46	17	18	32	50	15	17	16	
New orders for exports	6	70	14	-7	-7	14	60	16	-2	12	65	12	0	-1	
Supplier delivery time	7	85	6	2	3	19	72	8	10	7	86	6	2	1	
Inventories:															
Materials	23	55	22	1	2	34	36	29	5	18	54	27	-10	-5	
Finished goods	22	55	21	1	3	32	42	22	10	16	56	24	-8	-8	

¹Percentage may not add to 100 due to rounding.

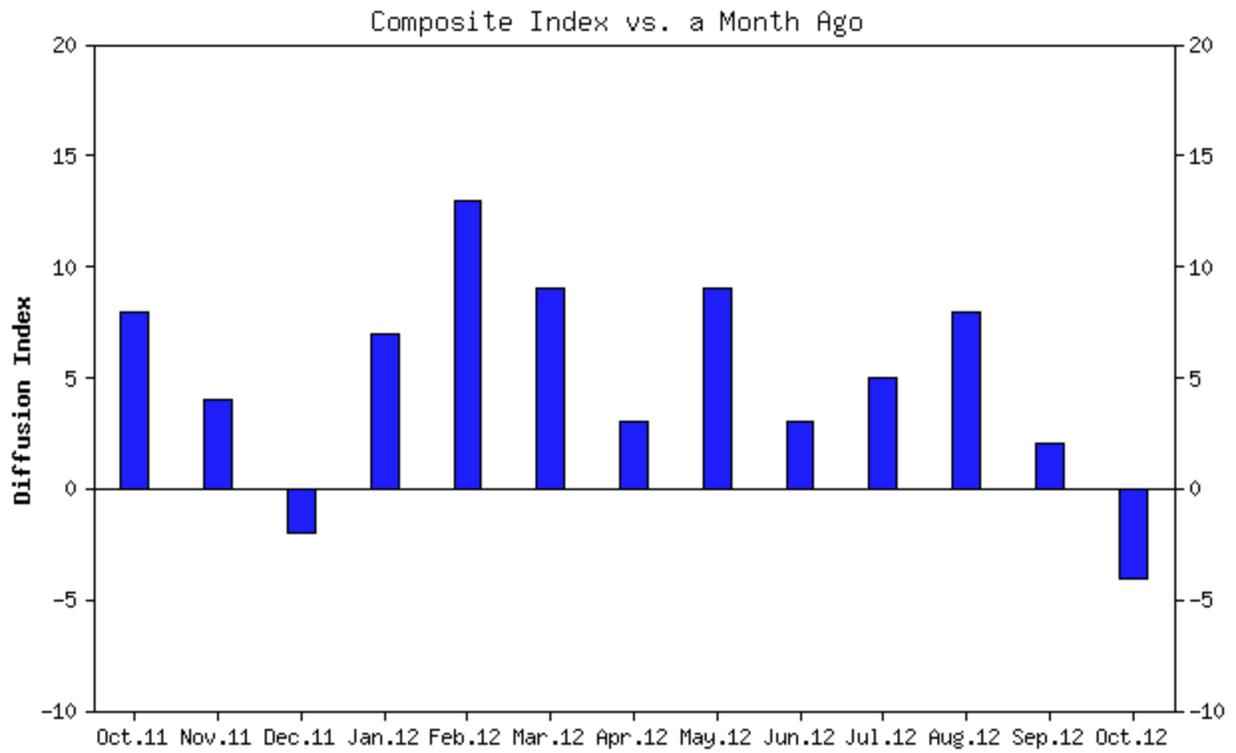
²Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

³Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12.

Note: The October survey included 124 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

	Oct'11	Nov'11	Dec'11	Jan'12	Feb'12	Mar'12	Apr'12	May'12	Jun'12	Jul'12	Aug'12	Sep'12	Oct'12
Versus a Month Ago (seasonally adjusted)													
Composite Index	8	4	-2	7	13	9	3	9	3	5	8	2	-4
Production	6	2	-6	13	20	13	0	17	12	2	7	-4	-6
Volume of shipments	7	2	-7	13	8	17	3	16	12	-3	12	-8	-6
Volume of new orders	3	-3	-2	9	8	17	-8	10	-7	-4	11	-2	-11
Backlog of orders	-3	-7	-11	8	13	3	-5	-3	-18	-10	4	-7	-15
Number of employees	13	5	-5	9	11	12	12	8	3	6	2	1	-6
Average employee workweek	4	-4	-9	-0	-3	2	-10	-2	-4	-3	-5	-13	-11
Prices received for finished product	6	4	4	13	11	3	7	0	-4	0	0	5	8
Prices paid for raw materials	30	20	27	42	36	33	19	11	7	18	26	30	27
Capital expenditures	n/a												
New orders for exports	0	-2	-1	10	-7	-0	1	3	-7	-13	-6	-4	-7
Supplier delivery time	10	8	8	8	10	4	4	10	4	6	6	8	3
Inventories: Materials	7	8	-7	-4	14	-0	5	1	5	13	16	7	2
Inventories: Finished goods	7	18	0	0	6	15	-3	2	-2	9	13	3	3
Versus a Year Ago (not seasonally adjusted)													
Composite Index	23	22	11	15	21	24	24	27	24	20	18	11	11
Production	27	23	19	16	28	31	30	38	32	19	25	12	17
Volume of shipments	31	21	18	13	30	37	35	35	35	18	22	16	22
Volume of new orders	31	21	10	17	28	33	28	32	32	23	16	6	10
Backlog of orders	5	8	0	13	24	20	20	32	20	10	14	-4	1
Number of employees	27	22	16	11	17	23	31	28	25	18	20	17	12
Average employee workweek	13	7	11	2	6	4	10	7	7	2	1	5	-2
Prices received for finished product	42	37	34	38	35	35	41	34	19	35	35	35	30
Prices paid for raw materials	82	70	64	67	57	71	74	66	60	50	49	60	60
Capital expenditures	18	23	17	8	12	15	18	21	21	23	21	17	18
New orders for exports	4	6	11	12	5	6	-2	9	4	2	2	-4	-2
Supplier delivery time	14	16	10	10	13	9	7	14	12	12	10	7	10
Inventories: Materials	18	27	0	19	19	22	25	23	17	26	16	11	5
Inventories: Finished goods	10	23	10	11	20	13	17	16	11	16	19	12	10
Expected in Six Months (seasonally adjusted)													
Composite Index	14	12	12	12	20	18	12	17	8	13	16	16	3
Production	24	22	15	28	35	31	26	40	22	22	31	29	9
Volume of shipments	24	20	25	23	37	31	22	40	20	20	30	31	10
Volume of new orders	23	20	25	18	34	34	23	29	12	22	21	24	8
Backlog of orders	2	10	4	9	24	13	8	11	-1	3	14	20	-2
Number of employees	16	12	10	18	23	23	15	18	13	16	16	16	4
Average employee workweek	-1	-3	2	1	3	7	-6	6	-2	-2	2	4	-3
Prices received for finished product	27	25	19	28	32	28	16	22	12	25	32	29	23
Prices paid for raw materials	56	57	47	64	54	65	54	48	40	50	44	49	53
Capital expenditures	15	17	13	22	18	20	6	19	17	20	18	11	16
New orders for exports	9	5	8	15	10	8	5	10	4	6	3	3	-1
Supplier delivery time	11	7	5	8	11	7	1	0	4	5	12	5	1
Inventories: Materials	-5	1	6	-10	-0	-5	-8	-0	-11	-1	2	9	-5
Inventories: Finished goods	3	5	2	-10	4	6	-4	-3	-8	5	10	6	-8



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