



News Release

Federal Reserve Bank of Kansas City

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FOR RELEASE Tuesday, October 12, 2004
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Manufacturing activity in the Tenth Federal Reserve District continued to expand strongly in September. Expectations for future factory activity were still very strong, and the future finished goods price index rose markedly after dropping in August.

A summary of the September survey is attached to this press release.

The Tenth Federal Reserve District encompasses Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The September 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.kansascityfed.org>.

Survey of Tenth District Manufacturing

by Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District continued to expand strongly in September. The year-over-year indexes for production, shipments, and new orders edged down but remained near all-time highs, and the capital spending index rose sharply. The year-over-year price indexes were virtually unchanged from last month and still quite high by historical standards. Expectations for future factory activity were still very strong, and the future finished goods price index rose markedly after dropping in August. Most month-over-month indexes increased, but the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons.

The net percentage of firms reporting year-over-year increases in production was 48 in September, down slightly from 50 in August but still near the all-time high of 51 reached in June (Tables 1 & 2). The slight easing in the production index was due to some slowdown in growth at nondurable goods-producing firms, as year-over-year output at durable goods-producing plants rose moderately in September. While sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production remained well above year-ago levels in all seven district states.

Most other year-over-year indexes of factory activity were similar to their strong August readings. Like the production index, the shipments and new orders indexes both eased slightly but remained near all-time highs. On the other hand, the employment index edged higher and capital spending index jumped from 16 to 30, its highest reading since the first time the Kansas City Fed survey was conducted in October 1994. The supplier delivery time index actually did reach a record high, and the inventory indexes—for both raw materials and finished goods—continued to move further into positive territory after posting negative readings through much of the 2000 to 2003 period.

The year-over-year price indexes were virtually unchanged in September after easing slightly in August from July's record highs. The year-over-year raw materials price index was 72, while the finished goods price index was 38. The continued high level of the year-over-year finished goods index was due mainly to price increases for products with high steel or petroleum content.

Plant managers continued to be quite optimistic about future factory activity. The six-month-ahead production index was unchanged at 39, and the future shipments and new orders indexes eased only slightly. The future employment index experienced a somewhat larger drop—from 30 to 23—but was still higher than in May, June, and July. Meanwhile, the future capital spending index rose from 19 to 25 after easing slightly in recent months. The gap between the future price indexes diminished somewhat. The future raw materials price index edged down from 55 to 54, but the future finished goods price index jumped from 20 to 30, erasing nearly all the drop in this index in August. Unlike the year-over-year finished goods price index, which is being held up by higher prices among producers of steel- and petroleum-based products, the future finished goods price index rose across virtually all industries in September.

Table1

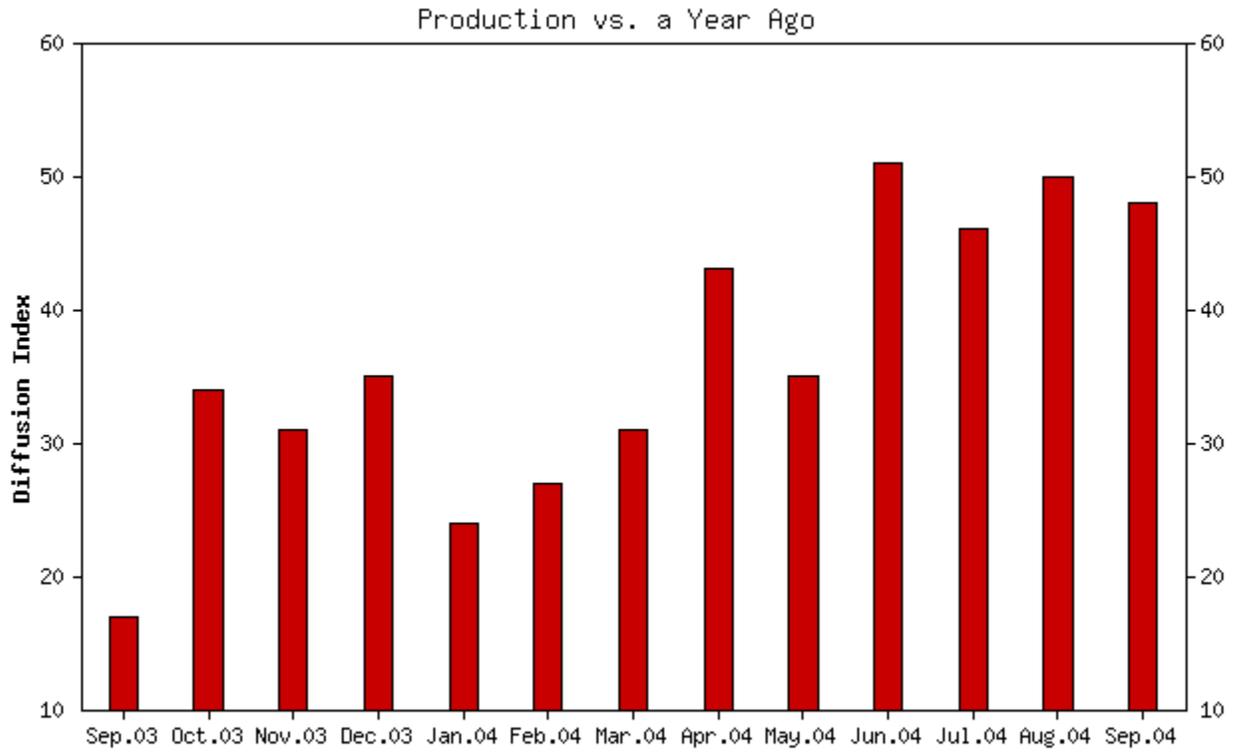
Summary of Tenth District Manufacturing Conditions, September 2004

	September vs. August (percent, not seasonally adjusted)				September vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
Plant Level Indicators												
Production	39	37	19	20	61	21	13	48	53	27	14	39
Volume of shipments	43	33	20	23	62	22	11	51	54	24	16	38
Volume of new orders	40	34	21	19	62	19	12	50	53	24	15	38
Backlog of orders	28	44	21	7	43	37	12	31	34	42	17	17
Number of employees	23	62	10	13	47	28	20	27	32	52	9	23
Average employee workweek	18	66	12	6	37	50	9	28	21	61	13	8
Prices received for finished product	21	68	5	16	50	31	12	38	41	41	11	30
Prices paid for raw materials	50	40	4	46	76	12	4	72	62	21	8	54
Capital expenditures					39	45	9	30	30	56	5	25
New orders for exports	8	68	8	0	16	59	9	7	15	63	5	10
Supplier delivery time	25	67	3	22	41	47	6	35	19	71	5	14
Inventories:												
Materials	31	45	20	11	41	31	22	19	20	49	25	-5
Finished goods	23	54	17	6	31	44	18	13	22	48	18	4

* 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 September survey included 132 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

	Sep'03	Oct'03	Nov'03	Dec'03	Jan'04	Feb'04	Mar'04	Apr'04	May'04	Jun'04	Jul'04	Aug'04	Sep'04
Versus a Month Ago (not seasonally adjusted)													
Production	31	28	6	1	17	14	27	28	23	26	20	15	20
Volume of shipments	30	21	-1	17	12	19	37	36	14	25	14	25	23
Volume of new orders	31	29	14	19	21	5	29	34	20	23	21	15	19
Backlog of orders	2	5	8	1	7	2	10	28	22	4	13	-6	7
Number of employees	11	4	8	12	9	7	15	14	18	16	11	12	13
Average employee workweek	25	5	8	-4	9	6	11	17	15	16	21	17	6
Prices received for finished product	-1	-5	-2	3	9	5	17	28	22	9	16	14	16
Prices paid for raw materials	16	17	27	23	39	38	57	67	56	54	47	52	46
Capital expenditures	n/a												
New orders for exports	2	5	-1	7	9	0	5	9	0	1	1	-6	0
Supplier delivery time	5	4	8	10	4	6	15	27	16	6	16	17	22
Inventories: Materials	-4	5	4	-4	9	11	3	15	13	-2	1	13	11
Inventories: Finished goods	-8	1	2	-3	-6	3	-6	1	9	0	4	11	6
Versus a Year Ago													
Production	17	34	31	35	24	27	31	43	35	51	46	50	48
Volume of shipments	20	36	29	29	27	32	34	45	39	46	49	55	51
Volume of new orders	31	40	41	45	30	38	29	52	45	47	51	52	50
Backlog of orders	12	10	21	28	22	25	21	31	33	28	37	27	31
Number of employees	-13	-8	0	3	-2	12	14	19	19	22	15	25	27
Average employee workweek	17	17	18	21	20	19	16	24	21	37	30	29	28
Prices received for finished product	-1	-1	4	2	8	11	19	37	34	34	42	37	38
Prices paid for raw materials	30	39	40	49	48	50	64	82	75	71	82	73	72
Capital expenditures	12	3	14	7	6	9	18	22	22	23	17	16	30
New orders for exports	0	5	3	5	8	7	10	9	3	2	5	8	7
Supplier delivery time	3	-4	8	5	6	7	20	26	20	22	30	24	35
Inventories: Materials	-7	-5	-8	9	-5	3	6	5	16	9	6	17	19
Inventories: Finished goods	-5	-7	-4	12	-7	4	-5	-2	3	1	-3	9	13
Expected in Six Months (not seasonally adjusted)													
Production	36	55	45	49	33	43	40	46	36	48	40	39	39
Volume of shipments	38	49	50	45	39	42	45	53	35	44	36	40	38
Volume of new orders	40	50	45	45	38	39	36	46	28	47	36	39	38
Backlog of orders	22	26	12	25	25	23	25	26	17	29	16	9	17
Number of employees	13	15	24	17	12	13	19	28	18	16	15	30	23
Average employee workweek	13	15	8	19	9	10	7	12	5	13	18	14	8
Prices received for finished product	10	9	14	17	15	25	24	39	28	28	31	20	30
Prices paid for raw materials	29	27	40	35	42	48	55	65	57	49	61	55	54
Capital expenditures	15	16	19	16	16	23	22	34	25	23	18	19	25
New orders for exports	13	11	10	14	17	17	15	14	8	7	5	14	10
Supplier delivery time	8	1	6	2	3	5	14	11	13	1	11	14	14
Inventories: Materials	4	4	-1	4	-9	-6	1	1	5	-6	-2	11	-5
Inventories: Finished goods	-6	6	3	3	-12	-2	-10	-2	-2	2	0	9	4



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