



News Release

Federal Reserve Bank of Kansas City

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FOR RELEASE Monday, January 12, 2004
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Manufacturing activity in the Great Plains and Rocky Mountain region encompassed by Tenth Federal Reserve District strengthened during December and manufacturers' expectations for future activity remained very high.

A summary of the December 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 December 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 strengthened further in December. The year-over-year production index reached a new five-year high, and the year-over-year new orders and backlog indexes were both at their highest levels in the nine-year history of the survey. In addition, the year-over-year employment index was positive for the first time in nearly four years, and expectations for future activity remained very high. While the month-over-month production index was only slightly positive, the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons. For example, the month-over-month production index was highly negative in both December 2001 and December 2002, suggesting seasonal factors could be a primary reason for the low December 2003 reading. Until several years of data are available for seasonal adjustment, this report will focus primarily on changes in activity versus a year ago.

The net percentage of firms reporting year-over-year increases in production was 35 in December, up slightly from high readings of 31 in November and 34 in October (Tables 1 & 2). Year-over-year growth was largely unchanged at both durable- and nondurable-goods-producing firms, with durable producers again posting very strong growth and nondurable producers reporting more moderate growth. While sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production was above year-ago levels throughout the district and was particularly strong in Oklahoma.

Most other year-over-year indexes of factory activity in December were at least as strong as in the previous month. The shipments index was unchanged at 29. However, the new orders index edged up to 45 and the backlog index rose to 28, the highest levels for these two indexes since the survey began in 1994. Likewise, the index for employee workweek rose above 20 for the first time since late 1994 and, following a reading of zero in November, the employment index moved into positive territory for the first time since early 2000. In a sign that firms may finally be rebuilding their stocks, the inventory indexes for both raw materials and finished goods rose well above zero after spending about a year in negative territory.

As for prices, the large gap between the year-over-year finished goods and raw materials price indexes edged even higher in December, suggesting pricing power remained elusive for most firms. While the finished goods price index was slightly positive for the second month in a row, the raw materials price index rose to 49, up from a reading of 40 in November and from readings in the thirties during most of the year.

Tenth District manufacturers remain quite optimistic about future factory activity. The future production index rose from 45 to 49, just slightly below the survey high of 55 reached in October. The future new orders and future shipments indexes were both at 45, also down only slightly from recent peaks. The future employment and capital spending indexes both edged down slightly from November but remained higher than earlier in the year. Meanwhile, the future price indexes suggest a change in pricing power could occur in the months ahead. Although still high by historical standards, the future raw material price index edged down slightly in December. At the same time, the future finished goods price index edged up to 17, its highest reading since early 2002, suggesting firms increasingly anticipate some ability to pass cost increases through to customers.

Table 1

Summary of Tenth District Manufacturing Conditions, December 2003

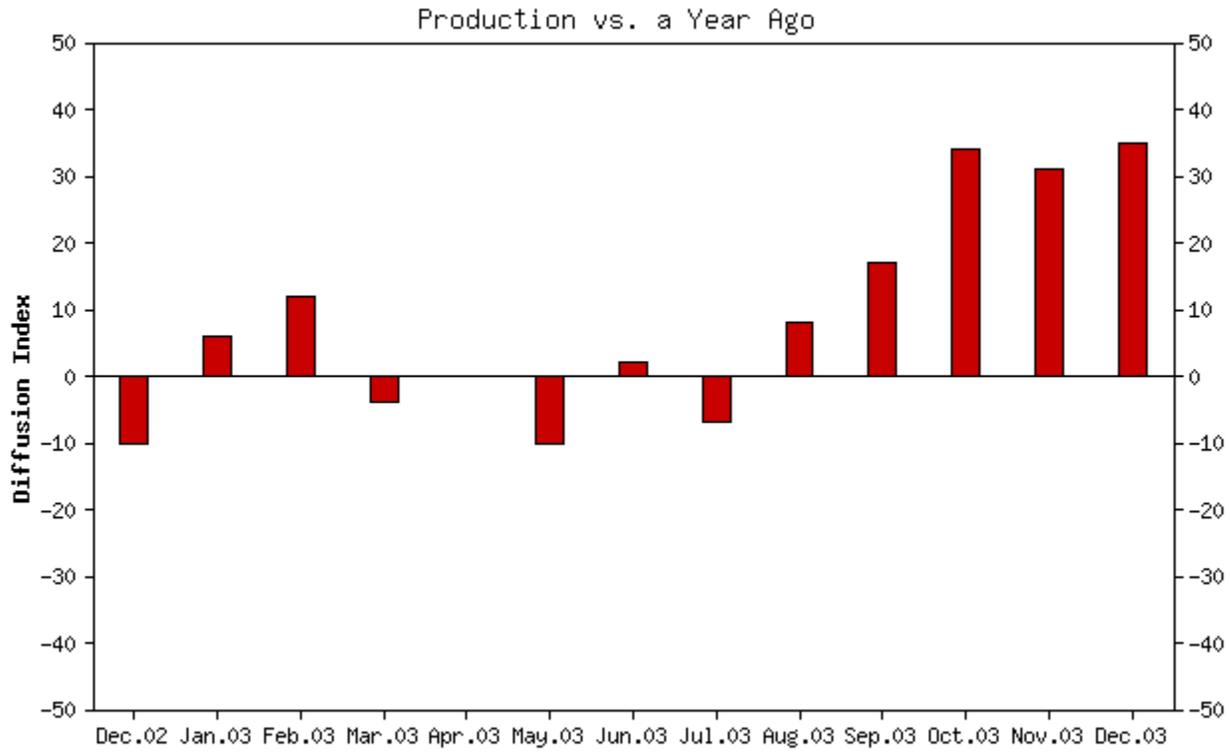
	December vs. November (percent, not seasonally adjusted)				December vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
Plant Level Indicators												
Production	34	32	33	1	61	12	26	35	62	24	13	49
Volume of shipments	42	29	25	17	55	14	26	29	57	27	12	45
Volume of new orders	43	31	24	19	61	21	16	45	59	25	14	45
Backlog of orders	28	43	27	1	44	35	16	28	42	37	17	25
Number of employees	27	56	15	12	37	27	34	3	35	44	18	17
Average employee workweek	19	56	23	-4	36	46	15	21	32	54	13	19
Prices received for finished product	9	83	6	3	27	46	25	2	26	64	9	17
Prices paid for raw materials	25	71	2	23	55	35	6	49	42	47	7	35
Capital expenditures					27	52	20	7	31	53	15	16
New orders for exports	13	71	6	7	17	63	12	5	19	68	5	14
Supplier delivery time	12	82	2	10	12	77	7	5	10	80	8	2
Inventories:												
Materials	26	43	30	-4	37	33	28	9	30	43	26	4
Finished goods	21	51	24	-3	33	44	21	12	24	52	21	3

* 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 December survey included 103 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

	Dec'02	Jan'03	Feb'03	Mar'03	Apr'03	May'03	Jun'03	Jul'03	Aug'03	Sep'03	Oct'03	Nov'03	Dec'03
Versus a Month Ago (not seasonally adjusted)													
Production	-20	14	8	11	15	1	15	8	20	31	28	6	1
Volume of shipments	-12	11	1	19	19	6	22	7	16	30	21	-1	17
Volume of new orders	-16	11	16	21	16	7	15	24	22	31	29	14	19
Backlog of orders	-26	-8	-1	2	-2	0	-1	5	17	2	5	8	1
Number of employees	-18	-11	-5	-17	-10	-1	-2	3	9	11	4	8	12
Average employee workweek	-19	4	12	1	-1	-4	-2	4	18	25	5	8	-4
Prices received for finished product	-9	0	-2	-9	-7	-7	-3	-5	-4	-1	-5	-2	3
Prices paid for raw materials	11	12	21	20	9	7	12	8	18	16	17	27	23
Capital expenditures	n/a												
New orders for exports	-3	1	-6	5	-8	2	4	6	7	2	5	-1	7
Supplier delivery time	2	2	-3	3	1	0	-2	0	-1	5	4	8	10
Inventories: Materials	-17	-1	-10	6	-7	-25	-18	-6	-14	-4	5	4	-4
Inventories: Finished goods	-18	-8	-4	3	-8	0	-10	-12	-11	-8	1	2	-3
Versus a Year Ago													
Production	-10	6	12	-4	0	-10	2	-7	8	17	34	31	35
Volume of shipments	-12	5	11	-6	9	-10	1	6	11	20	36	29	29
Volume of new orders	-6	4	24	4	7	-2	6	16	22	31	40	41	45
Backlog of orders	-13	0	11	-6	-7	-13	-10	-3	3	12	10	21	28
Number of employees	-37	-27	-32	-21	-29	-33	-30	-17	-8	-13	-8	0	3
Average employee workweek	-15	-2	1	-7	-20	-13	-11	-1	9	17	17	18	21
Prices received for finished product	-8	-11	-3	-7	-2	-7	-4	-5	1	-1	-1	4	2
Prices paid for raw materials	33	23	39	30	28	32	31	31	37	30	39	40	49
Capital expenditures	-9	-15	-15	-8	-1	-4	-12	-3	0	12	3	14	7
New orders for exports	-1	2	-3	-1	-11	0	-5	-5	11	0	5	3	5
Supplier delivery time	0	-4	-11	-4	-2	-1	-5	-3	-4	3	-4	8	5
Inventories: Materials	-13	-15	-16	-1	-6	-26	-17	-14	-11	-7	-5	-8	9
Inventories: Finished goods	-1	0	-10	-1	-4	-9	-5	-5	-12	-5	-7	-4	12
Expected in Six Months (not seasonally adjusted)													
Production	32	38	33	33	36	37	32	35	37	36	55	45	49
Volume of shipments	31	44	32	40	38	35	28	28	38	38	49	50	45
Volume of new orders	30	35	38	37	36	36	36	21	40	40	50	45	45
Backlog of orders	15	16	22	16	19	23	23	24	18	22	26	12	25
Number of employees	8	14	17	15	5	9	7	5	23	13	15	24	17
Average employee workweek	8	20	10	13	7	20	8	8	11	13	15	8	19
Prices received for finished product	-5	4	11	-3	7	11	5	3	10	10	9	14	17
Prices paid for raw materials	25	24	25	20	22	25	27	17	32	29	27	40	35
Capital expenditures	1	2	9	3	13	13	16	12	15	15	16	19	16
New orders for exports	-4	10	5	4	-2	9	6	5	14	13	11	10	14
Supplier delivery time	-2	-1	9	6	7	12	-3	5	2	8	1	6	2
Inventories: Materials	-16	-14	-9	-6	0	-12	-14	-8	0	4	4	-1	4
Inventories: Finished goods	-16	-5	-9	-4	5	-11	-9	0	3	-6	6	3	3



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