



# News Release

## Federal Reserve Bank of Kansas City

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Manufacturing activity in the Tenth Federal Reserve District was steady in August. Expectations for future factory activity remained positive and the future employment index rose somewhat after languishing for the past three months.

A summary of the August 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 the July 2001 release, information about the Tenth District's manufacturing sector is available monthly.

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The August 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 was steady in August for the second straight month, after improving during the first half of the year. Production remained slightly below year-ago levels, and the year-over-year employment index was as negative as in June and July. However, expectations for future factory activity remained positive, and firms showed less eagerness to pare their inventories. The index for production versus a month ago rose for the eighth straight survey, but the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons. 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 increases in production from a year ago was  $-7$  in August, slightly higher than in July but a little lower than in June (Tables 1 & 2). Producers of nondurable goods continued to report higher levels of activity than a year ago, while durable-goods production remained below year-ago levels. Although sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that manufacturing activity compared with a year ago remained weakest in Oklahoma (the district state most concentrated in durable-goods production). Production was also below year-ago levels in Kansas and western Missouri. Meanwhile, factory activity appeared to be strongest in Nebraska (the state most concentrated in nondurable goods production).

Like the production index, most other year-over-year indexes of factory activity showed little or no change compared with the July survey. The indexes for volume of shipments and volume of new orders remained slightly negative, while the indexes for number of employees and backlog of orders were still well below zero. The capital expenditures index also was unchanged after rising in each of the previous four surveys.

The only indexes showing considerable change from the July survey were for inventories. Although still slightly below year-ago levels, the indexes for inventories of both raw materials and finished goods were much less negative than in the previous two surveys. Supplier delivery times remained similar to July, up only slightly from a year ago.

The year-over-year price indexes were virtually unchanged from July. The gap between the raw materials price index and the finished goods price index was again quite large, maintaining the trend seen throughout this year and suggesting that firms continue to have difficulties passing cost increases on to customers. The net percentage of firms reporting raw materials price increases from a year ago edged up to another year-and-a-half high, at 33. Meanwhile, the year-over-year finished goods price index remained slightly negative.

Despite the current sluggishness in manufacturing, firms were still cautiously optimistic about factory activity six months down the road. The index for future production edged up from 24 in July to 25 in August, and expectations for future shipments and new orders were similar to previous months. Capital spending plans were also unchanged. Consistent with the continued positive outlook heading forward, however, the future employment index rose somewhat after languishing for the past three months. Prices are expected to maintain their current trend over the next six months, with prices for raw materials rising much more quickly than finished goods prices.

Table 1

## Summary of Tenth District Manufacturing Conditions, August 2002

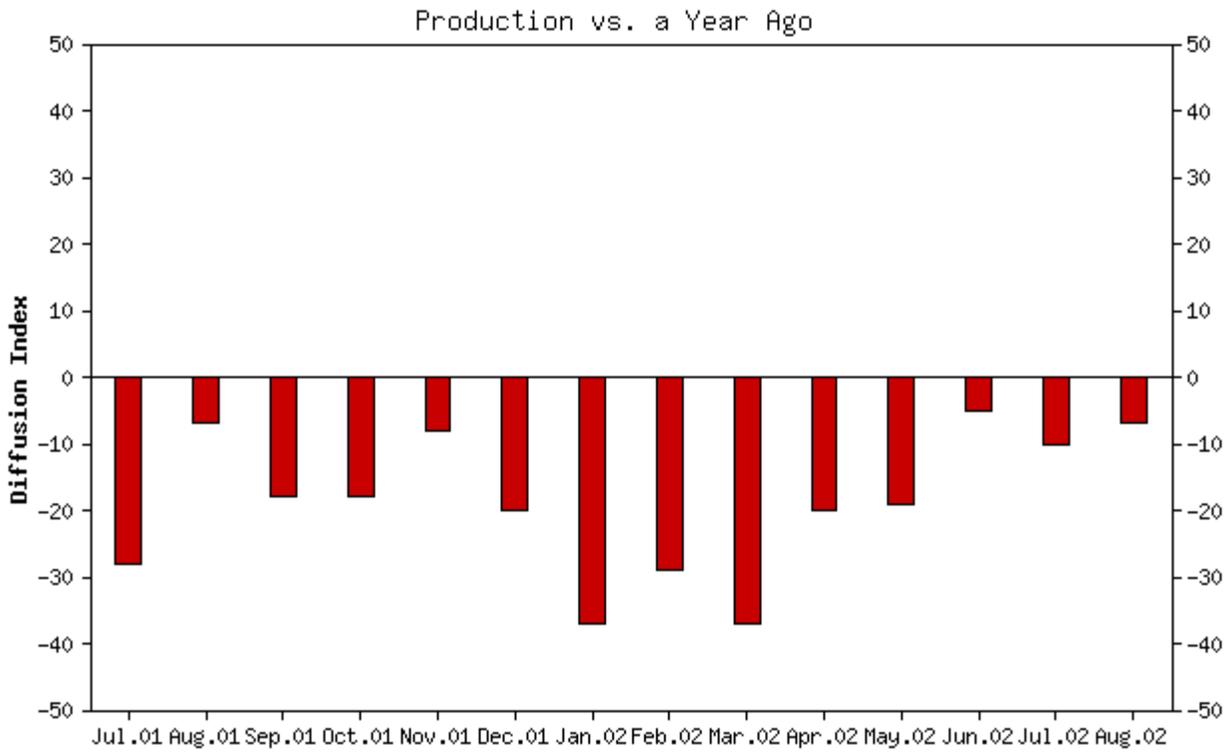
	August vs. July (percent, not seasonally adjusted)				August vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *
<b>Plant Level Indicators</b>												
<b>Production</b>	30	51	17	13	37	18	44	-7	49	25	24	25
<b>Volume of shipments</b>	28	50	21	7	35	20	44	-9	49	25	25	24
<b>Volume of new orders</b>	34	44	20	14	37	20	40	-3	46	33	19	27
<b>Backlog of orders</b>	19	58	20	-1	24	33	41	-17	31	46	20	11
<b>Number of employees</b>	16	61	21	-5	19	30	49	-30	30	50	18	12
<b>Average employee workweek</b>	17	63	18	-1	14	55	29	-15	22	58	18	4
<b>Prices received for finished product</b>	4	80	13	-9	24	43	30	-6	23	55	19	4
<b>Prices paid for raw materials</b>	25	65	8	17	48	34	15	33	42	50	6	36
<b>Capital expenditures</b>					27	36	34	-7	27	50	19	8
<b>New orders for exports</b>	4	74	11	-7	14	58	18	-4	14	67	9	5
<b>Supplier delivery time</b>	10	82	4	6	15	68	12	3	13	80	3	10
<b>Inventories:</b>												
<b>Materials</b>	30	49	19	11	26	38	33	-7	21	51	24	-3
<b>Finished goods</b>	24	52	20	4	27	37	32	-5	26	50	19	7

\* 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 August survey included 102 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

**Table2**  
**Historical Manufacturing Survey Indexes**

	Jul'01	Aug'01	Sep'01	Oct'01	Nov'01	Dec'01	Jan'02	Feb'02	Mar'02	Apr'02	May'02	Jun'02	Jul'02	Aug'02
<b>Versus a Month Ago</b> (not seasonally adjusted)														
Production	-21	22	0	6	-15	-21	6	3	24	18	19	6	8	13
Volume of shipments	-28	15	5	-1	-19	-14	-4	-7	33	13	29	9	6	7
Volume of new orders	-24	10	-12	-9	-25	-25	11	-3	27	16	22	8	4	14
Backlog of orders	-20	-2	-26	-20	-23	-19	0	-8	4	-3	-3	-15	-4	-1
Number of employees	-18	-1	-17	-20	-20	-22	-8	-9	2	1	0	8	-3	-5
Average employee workweek	-12	4	-7	-12	-18	-13	-3	7	6	-2	3	0	0	-1
Prices received for finished product	-7	0	-9	-12	-8	-5	-9	-8	0	-3	-8	-11	-6	-9
Prices paid for raw materials	3	-3	-1	3	-3	2	1	8	17	21	19	17	22	17
Capital expenditures	n/a													
New orders for exports	8	6	-1	-5	-5	-12	-2	-6	8	6	3	-4	1	-7
Supplier delivery time	1	-3	-8	-9	0	-1	3	5	10	4	5	6	2	6
Inventories: Materials	-24	-10	-12	-6	-13	-29	3	-19	-4	-11	4	-13	-1	11
Inventories: Finished goods	-21	-5	-7	-6	-15	-24	0	5	3	0	9	-10	8	4
<b>Versus a Year Ago</b>														
Production	-28	-7	-18	-18	-8	-20	-37	-29	-37	-20	-19	-5	-10	-7
Volume of shipments	-28	-1	-11	-16	-12	-6	-36	-27	-37	-19	-11	-13	-7	-9
Volume of new orders	-28	-12	-13	-21	-21	-20	-30	-29	-36	-12	1	-13	-6	-3
Backlog of orders	-22	-7	-16	-19	-14	-21	-27	-24	-23	-25	-22	-24	-22	-17
Number of employees	-32	-25	-32	-34	-38	-41	-41	-46	-41	-37	-46	-28	-27	-30
Average employee workweek	-32	-5	-25	-27	-29	-24	-20	-29	-22	-34	-20	-18	-13	-15
Prices received for finished product	-5	13	3	-7	-2	5	2	6	-6	-5	-7	-13	-8	-6
Prices paid for raw materials	16	9	12	15	0	0	-2	23	24	18	11	26	32	33
Capital expenditures	-11	-22	-25	-31	-25	-24	-21	-36	-39	-30	-28	-21	-7	-7
New orders for exports	1	-2	0	1	-8	-8	-8	-12	-10	-7	-3	-6	-6	-4
Supplier delivery time	1	-2	-1	-6	-16	-1	-7	-2	6	4	3	8	5	3
Inventories: Materials	-30	-15	-14	-11	-33	-27	-33	-30	-27	-20	-18	-26	-28	-7
Inventories: Finished goods	-20	-12	0	-15	-27	-27	-34	-17	-15	-13	2	-18	-13	-5
<b>Expected in Six Months</b> (not seasonally adjusted)														
Production	12	13	6	4	13	22	33	32	42	36	15	20	24	25
Volume of shipments	15	8	4	4	13	29	41	34	45	37	35	24	28	24
Volume of new orders	13	15	11	11	8	19	28	37	44	36	38	27	36	27
Backlog of orders	-3	3	-15	-2	-9	2	5	18	13	12	32	13	7	11
Number of employees	-15	7	-13	-14	-7	-6	-5	15	19	21	8	4	4	12
Average employee workweek	-9	6	-6	-6	-9	-1	4	3	18	18	11	5	-1	4
Prices received for finished product	10	10	4	2	13	13	0	6	12	18	12	0	4	4
Prices paid for raw materials	22	6	11	5	14	21	13	25	30	38	30	27	34	36
Capital expenditures	0	-16	-19	-18	-23	-14	-9	-7	0	5	12	12	8	8
New orders for exports	12	7	-3	3	-1	0	1	3	13	6	12	8	9	5
Supplier delivery time	-5	-3	-2	4	-4	3	3	5	4	11	8	9	10	10
Inventories: Materials	-28	-16	-20	-27	-29	-7	-16	-3	4	-2	0	-1	-6	-3
Inventories: Finished goods	-24	-11	-24	-29	-22	-15	-21	3	7	0	11	-2	4	7



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