



# News Release

## Federal Reserve Bank of Kansas City

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FOR RELEASE Monday, August 12, 2002  
EMBARGOED FOR 11:00 A.M. EST

Most measures of manufacturing activity in the Tenth Federal Reserve District showed little or no improvement in July after rebounding steadily throughout most of this year. Expectations for future factory activity edged up again during July, but were not as high as in the spring.

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 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 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

Most measures of manufacturing activity in the Tenth Federal Reserve District showed little or no improvement in July after rebounding steadily throughout most of this year. Production remained slightly below year-ago levels and the year-over-year employment index was largely unchanged from June. Expectations for future factory activity edged up again, but were not as high as in the spring. The index for production versus a month ago rose for the seventh 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 -10 in July, only slightly lower than in June, when the highest reading since late 2000 was posted (Tables 1 & 2). Trends among durable and nondurable goods-producers were similar to recent months. Producers of nondurable goods continued to report above year-ago production, while durable-goods production remained lower than a year ago. Although sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that manufacturing was weakest in Oklahoma (the district state most concentrated in durable-goods production) and western Missouri. Meanwhile, factory activity was at least as strong as a year ago in Colorado, Kansas, and Nebraska (the state most concentrated in nondurable goods production).

Most other year-over-year indexes of factory activity showed no change or only slight improvement compared with the June survey. The indexes for number of employees and backlog of orders remained well below zero, although the employment index was nevertheless higher than earlier in the year. The indexes for volume of shipments and volume of new orders rose somewhat from June, but remained slightly negative. The index showing the biggest improvement was the capital expenditures index, which jumped from -21 to -7 after posting more modest gains in the previous three surveys.

Reflecting the overall sluggishness in manufacturing, inventories remained well below year-ago levels in July. The year-over-year index for inventories of raw materials declined for the second straight month after rising from February to May. The finished goods inventories index increased slightly but was lower than in May, when it rose above zero for the first time in over a year. Supplier delivery times remained slightly higher than a year ago.

The year-over-year price indexes rose slightly in July but a substantial gap between materials prices and finished good prices persisted. The net percentage of firms reporting raw materials price increases from a year ago was the highest in a year and a half, at 32. Meanwhile, the year-over-year finished goods price index remained slightly negative, suggesting firms continue to have difficulties passing cost increases through to customers.

Expectations for factory activity six months down the road continued to edge up in July but were not as high as in the spring. The index for future production rose from 20 to 24 to remain above lows reached last fall. This index, however, was above 30 from January to April of this year. The future shipments and new orders indexes also edged up but failed to reach spring highs. The diminished expectations continue to show through in hiring and spending plans. As in May and June, only slightly more firms expect to increase employment over the next six months as decrease it. The future capital expenditures index remained positive for the fourth straight month, but was down slightly from the peak reached in May and June. The future price indexes for both raw materials and finished goods edged up, with a sizable gap remaining between the two, suggesting that firms continue to expect problems passing through cost increases.

Table 1

## Summary of Tenth District Manufacturing Conditions, July 2002

	July vs. June (percent, not seasonally adjusted)				July 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>	32	41	24	8	35	17	45	-10	48	23	24	24
<b>Volume of shipments</b>	32	39	26	6	39	12	46	-7	51	23	23	28
<b>Volume of new orders</b>	31	37	27	4	33	25	39	-6	52	28	16	36
<b>Backlog of orders</b>	22	47	26	-4	21	33	43	-22	31	42	24	7
<b>Number of employees</b>	18	59	21	-3	19	33	46	-27	26	49	22	4
<b>Average employee workweek</b>	14	68	14	0	17	50	30	-13	16	63	17	-1
<b>Prices received for finished product</b>	5	80	11	-6	21	48	29	-8	19	63	15	4
<b>Prices paid for raw materials</b>	26	66	4	22	47	35	15	32	39	52	5	34
<b>Capital expenditures</b>					23	42	30	-7	22	56	14	8
<b>New orders for exports</b>	11	67	10	1	11	63	17	-6	16	66	7	9
<b>Supplier delivery time</b>	5	87	3	2	13	75	8	5	13	78	3	10
<b>Inventories:</b>												
<b>Materials</b>	24	47	25	-1	21	27	49	-28	26	39	32	-6
<b>Finished goods</b>	28	47	20	8	25	32	38	-13	28	43	24	4

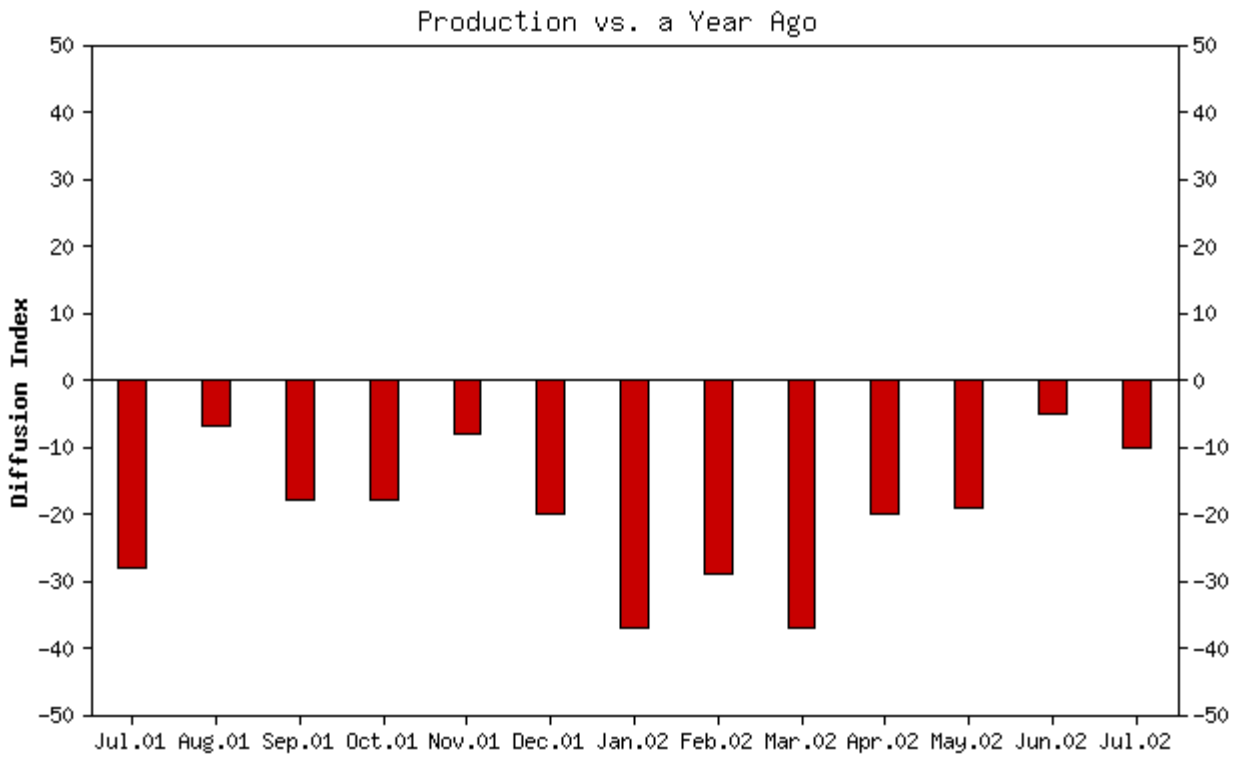
\* The diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicator from the percentage of those reporting increases. Index values greater than zero generally suggest expansion, while values less than zero indicate contraction. When index values are closer to 100, the increases among respondents are more widespread. When index values are closer to -100, decreases are more widespread.

Note: The July survey included 109 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
<b>Versus a Month Ago (not seasonally adjusted)</b>													
Production	-21	22	0	6	-15	-21	6	3	24	18	19	6	8
Volume of shipments	-28	15	5	-1	-19	-14	-4	-7	33	13	29	9	6
Volume of new orders	-24	10	-12	-9	-25	-25	11	-3	27	16	22	8	4
Backlog of orders	-20	-2	-26	-20	-23	-19	0	-8	4	-3	-3	-15	-4
Number of employees	-18	-1	-17	-20	-20	-22	-8	-9	2	1	0	8	-3
Average employee workweek	-12	4	-7	-12	-18	-13	-3	7	6	-2	3	0	0
Prices received for finished product	-7	0	-9	-12	-8	-5	-9	-8	0	-3	-8	-11	-6
Prices paid for raw materials	3	-3	-1	3	-3	2	1	8	17	21	19	17	22
Capital expenditures	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
New orders for exports	8	6	-1	-5	-5	-12	-2	-6	8	6	3	-4	1
Supplier delivery time	1	-3	-8	-9	0	-1	3	5	10	4	5	6	2
Inventories: Materials	-24	-10	-12	-6	-13	-29	3	-19	-4	-11	4	-13	-1
Inventories: Finished goods	-21	-5	-7	-6	-15	-24	0	5	3	0	9	-10	8
<b>Versus a Year Ago</b>													
Production	-28	-7	-18	-18	-8	-20	-37	-29	-37	-20	-19	-5	-10
Volume of shipments	-28	-1	-11	-16	-12	-6	-36	-27	-37	-19	-11	-13	-7
Volume of new orders	-28	-12	-13	-21	-21	-20	-30	-29	-36	-12	1	-13	-6
Backlog of orders	-22	-7	-16	-19	-14	-21	-27	-24	-23	-25	-22	-24	-22
Number of employees	-32	-25	-32	-34	-38	-41	-41	-46	-41	-37	-46	-28	-27
Average employee workweek	-32	-5	-25	-27	-29	-24	-20	-29	-22	-34	-20	-18	-13
Prices received for finished product	-5	13	3	-7	-2	5	2	6	-6	-5	-7	-13	-8
Prices paid for raw materials	16	9	12	15	0	0	-2	23	24	18	11	26	32
Capital expenditures	-11	-22	-25	-31	-25	-24	-21	-36	-39	-30	-28	-21	-7
New orders for exports	1	-2	0	1	-8	-8	-8	-12	-10	-7	-3	-6	-6
Supplier delivery time	1	-2	-1	-6	-16	-1	-7	-2	6	4	3	8	5
Inventories: Materials	-30	-15	-14	-11	-33	-27	-33	-30	-27	-20	-18	-26	-28
Inventories: Finished goods	-20	-12	0	-15	-27	-27	-34	-17	-15	-13	2	-18	-13
<b>Expected in Six Months (not seasonally adjusted)</b>													
Production	12	13	6	4	13	22	33	32	42	36	15	20	24
Volume of shipments	15	8	4	4	13	29	41	34	45	37	35	24	28
Volume of new orders	13	15	11	11	8	19	28	37	44	36	38	27	36
Backlog of orders	-3	3	-15	-2	-9	2	5	18	13	12	32	13	7
Number of employees	-15	7	-13	-14	-7	-6	-5	15	19	21	8	4	4
Average employee workweek	-9	6	-6	-6	-9	-1	4	3	18	18	11	5	-1
Prices received for finished product	10	10	4	2	13	13	0	6	12	18	12	0	4
Prices paid for raw materials	22	6	11	5	14	21	13	25	30	38	30	27	34
Capital expenditures	0	-16	-19	-18	-23	-14	-9	-7	0	5	12	12	8
New orders for exports	12	7	-3	3	-1	0	1	3	13	6	12	8	9
Supplier delivery time	-5	-3	-2	4	-4	3	3	5	4	11	8	9	10
Inventories: Materials	-28	-16	-20	-27	-29	-7	-16	-3	4	-2	0	-1	-6
Inventories: Finished goods	-24	-11	-24	-29	-22	-15	-21	3	7	0	11	-2	4



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