



# News Release

## Federal Reserve Bank of Kansas City

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Manufacturing activity in the Kansas City Federal Reserve District remained relatively weak in August and expectations about future production also remained somewhat subdued. However, more firms continued to expect increased activity in six months than expected a decrease. Producers of durable goods also seemed to be more optimistic about future production than nondurable goods producers -- who actually predict a decline in production over the next six months. Following a year of employee cutbacks, a sizable number of firms also expect to increase employment over the next six months in tandem with the slight increase in production.

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 improved in August but remained relatively weak, according to a survey of plant managers in the region. Expectations about future production also remained somewhat subdued. The survey takes a snapshot of factory activity each month by asking respondents about a variety of manufacturing indicators. This release is the second one since the Federal Reserve Bank of Kansas City's quarterly survey initiated in 1994 was replaced by a monthly survey in order to provide more timely information on the regional manufacturing sector.

The net percentage of Tenth District firms reporting a monthly increase in production rose considerably from the low level posted in July (Table 1). However, July is typically a weak month for manufacturing, so activity tends to be higher in August than in July. Consistent with this view that part of the August improvement was seasonal, production was still negative when compared with a year ago (Chart 1). On the positive side, the year-over-year production index was not nearly as negative as in the July survey, and was also slightly above the negative readings in the January and April surveys from the Bank's old quarterly manufacturing survey. Most of the improvement in the production index on a year-over-year basis was due to industries producing durable goods. Nondurable goods production remained basically flat.

In addition to production, most other indicators of factory activity were weak in August. The volume of new orders, backlog of orders, number of employees, and average employee workweek at district firms all remained below year-ago levels, although less so than in July. On a more upbeat note, the volume of shipments in August was basically the same as a year ago, a considerable improvement from July's highly negative year-over-year reading. New orders for exports also remained around year-ago levels. Inventory levels continued to fall for both raw materials and finished products, and supplier delivery times also edged down. The year-over-year index for capital expenditures fell further in August, suggesting that manufacturers are still taking a wait-and-see attitude toward expansion.

Price pressures in the manufacturing sector appeared to increase somewhat in August. Prices received for finished goods rose from below year-ago levels in July to above year-ago levels in August. Prices paid for raw materials remained moderately above year-ago levels. Unlike in the last few years of the Bank's quarterly survey of manufacturers, the year-over-year index for finished goods prices was higher than the index for materials prices in August. Some firms caught in a profit squeeze over the past couple of years finally seemed to be able to pass cost increases through to customers.

Expectations for future factory activity in the region remained somewhat subdued. Forecasts of production six months down the road were similar to those in the July survey, which were lower than at anytime during the Bank's quarterly survey that ran from late 1994 through mid-2001. However, more firms still expect activity to increase than to decrease by the beginning of next year. Producers of durable goods also seemed to be more optimistic about future production than nondurable goods producers. Nondurable goods producers actually predict a decline in production over the next six months. Following a year of employee cutbacks, a sizable number of firms also expect to increase employment over the next six months in tandem with the slight increase in production.

**Table1  
Summary of Tenth  
District  
Manufacturing  
Conditions,  
August 2001**

Plant Level Indicators	August vs. July (Percent)				August vs. Year Ago (Percent)				Expected in Six Months (Percent)			
	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *
<b>Production</b>	38	45	16	22	33	25	40	-7	39	33	26	13
<b>Volume of shipments</b>	40	33	25	15	39	19	40	-1	36	35	28	8
<b>Volume of new orders</b>	33	42	23	10	28	30	40	-12	38	36	23	15
<b>Backlog of orders</b>	21	52	23	-2	28	32	35	-7	28	42	25	3
<b>Number of employees</b>	18	61	19	-1	22	29	47	-25	29	47	22	7
<b>Average employee workweek</b>	18	66	14	4	23	46	28	-5	21	61	15	6
<b>Prices received for finished product</b>	11	76	11	0	39	30	26	13	29	49	19	10
<b>Prices paid for raw materials</b>	12	69	15	-3	38	28	29	9	21	61	15	6
<b>Capital expenditures</b>					21	35	43	-22	12	59	28	-16
<b>New orders for exports</b>	15	61	9	6	19	46	21	-2	18	57	11	7
<b>Supplier delivery time</b>	2	90	5	-3	12	71	14	-2	4	87	7	-3
<b>Inventories:</b>												
<b>Materials</b>	12	64	22	-10	25	33	40	-15	12	59	28	-16
<b>Finished goods</b>	21	50	26	-5	28	30	40	-12	18	52	29	-11

\* Diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicators 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 more widespread are increases among respondents. When index values are closer to -100, the more widespread are decreases. Note: The August survey included 71 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

### Tenth District Manufacturing Production Index

