



News Release

Federal Reserve Bank of Kansas City

Kansas City, Missouri 64198

Phone (816) 881-2683

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Kansas City, Missouri 64198

Phone (816) 881-2683

Fax (816) 881-2569

FOR RELEASE Tuesday, November 13, 2001

EMBARGOED FOR 11:00 A.M. EST

Manufacturing activity in the Tenth Federal Reserve District remained weak in October but did not deteriorate appreciably from September, according to a survey of plant managers in the region. Most indicators of current activity were still well below year-ago levels. In addition, firms continued to show little enthusiasm for capital spending and expectations for future activity remained subdued. On the positive side, inventories fell and price pressures showed no signs of emerging.

A summary of the October 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 October 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 remained weak in October but did not deteriorate appreciably from September, according to a survey of plant managers in the region. Most indicators of current activity were still well below year-ago levels. In addition, firms continued to show little enthusiasm for capital spending and expectations for future activity remained subdued. On the positive side, inventories fell and price pressures showed no signs of emerging. The Federal Reserve Bank of Kansas City's Survey of Manufacturers takes a snapshot of factory activity each month by asking respondents about a variety of manufacturing indicators. This is the fourth release since the Bank's quarterly survey was replaced with a monthly survey in order to provide more timely information on the regional manufacturing sector.

Factory production was still sluggish in October. The net percentage of firms reporting a monthly increase in production was slightly positive, but the year-over-year production index remained just as negative as in September (Table 1). This decline from a year ago was due entirely to dropoffs among durable goods-producing plants. Nondurable goods producers in the region, such as food processing plants, have actually seen a small increase in production over the past year.

Although sample sizes make it more difficult to draw firm conclusions about states, the October results are consistent with outside reports about local factory activity. Among district states, Colorado has seen the sharpest falloff in its year-over-year production index since the start of the monthly survey in July. This decline is not surprising given the large number of manufacturing layoffs in that state in recent months. Production in Kansas, western Missouri, and Nebraska also remains below year-ago levels, although less so than in July. Meanwhile, Oklahoma's year-over-year index has been very positive throughout the short history of the monthly survey, consistent with other indications that the state's economy is weathering the current slowdown better than the nation as a whole.

Aside from production, most other indicators of factory activity weakened slightly in October. The year-over-year indexes for volume of shipments, volume of new orders, and backlog of orders all became a little more negative than in September. And the index for number of employees reached a survey low, consistent with the increase in layoff announcements following the September 11 terrorist attacks. The average employee workweek also remained well below year-ago levels. Finally, the year-over-year index for capital expenditures fell somewhat further below zero, revealing manufacturers' doubts about the future.

On a positive note, inventories of both raw materials and finished products continued to fall in October despite sluggish production and a decline in shipments. This trend offers some hope that firms will not be stuck with excess stocks as in past slowdowns, likely due in part to the institution of just-in-time inventory management in recent years. Not surprisingly given weakened demand, supplier delivery times declined slightly in October.

Price pressures for finished goods and raw materials remained generally subdued. The year-over-year index for finished product prices actually became negative in October, following monthly declines in three of the last four months. The raw materials year-over-year index has changed little in recent months, remaining somewhat positive.

Expectations for future factory activity in the region were similar to September, which largely represented survey lows. However, the net percentage of firms expecting increases in production, shipments, and new orders over the next six months was still slightly above zero. Projections for number of employees, average workweek, and capital spending were just as negative as in September. On the positive side, plants expect to continue to be able to trim inventories, and price pressures are expected to remain in check.

Table1
Summary of Tenth District Manufacturing Conditions, October 2001

Plant Level Indicators	October vs. September (Percent)				October vs. Year Ago (Percent)				Expected in Six Months (Percent)			
	Increase	No Change	Decrease	Index [*]	Increase	No Change	Decrease	Index [*]	Increase	No Change	Decrease	Index [*]
Production	28	48	22	6	27	27	45	-18	29	44	25	4
Volume of shipments	28	41	29	-1	27	29	43	-16	33	36	29	4
Volume of new orders	27	35	36	-9	22	29	43	-21	33	39	22	11
Backlog of orders	16	44	36	-20	20	37	39	-19	22	50	24	-2
Number of employees	12	54	32	-20	18	28	52	-34	13	58	27	-14
Average employee workweek	10	66	22	-12	13	45	40	-27	12	68	18	-6
Prices received for finished product	6	71	18	-12	22	45	29	-7	22	55	20	2
Prices paid for raw materials	12	77	9	3	36	40	21	15	22	58	17	5
Capital expenditures					16	33	47	-31	14	51	32	-18
New orders for exports	5	75	10	-5	14	60	13	1	16	59	13	3
Supplier delivery time	4	79	13	-9	10	70	16	-6	10	79	6	4
Inventories:												
Materials	16	55	22	-6	20	45	31	-11	12	45	39	-27
Finished goods	25	41	31	-6	22	37	37	-15	12	44	41	-29

* 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 October survey included 74 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, Northern New Mexico, and Western Missouri.

Table2
Historical Manufacturing Survey Indexes

	0107	0108	0109	0110
Previous Month				
Production	-21	22	0	6
Volume of shipments	-28	15	5	-1
Volume of new orders	-24	10	-12	-9
Backlog of orders	-20	-2	-26	-20
Number of employees	-18	-1	-17	-20
Average employee workweek	-12	4	-7	-12
Prices received for finished product	-7	0	-9	-12
Prices paid for raw materials	3	-3	-1	3
Capital expenditures	0	0	0	0
New orders for exports	8	6	-1	-5
Supplier delivery time	1	-3	-8	-9
Inventories: Materials	-24	-10	-12	-6
Inventories: Finished goods	-21	-5	-7	-6
Previous Year				
Production	-28	-7	-18	-18
Volume of shipments	-28	-1	-11	-16
Volume of new orders	-28	-12	-13	-21
Backlog of orders	-22	-7	-16	-19
Number of employees	-32	-25	-32	-34
Average employee workweek	-32	-5	-25	-27
Prices received for finished product	-5	13	3	-7
Prices paid for raw materials	16	9	12	15
Capital expenditures	-11	-22	-25	-31
New orders for exports	1	-2	0	1
Supplier delivery time	1	-2	-1	-6
Inventories: Materials	-30	-15	-14	-11
Inventories: Finished goods	-20	-12	0	-15
Six Months Ahead				
Production	12	13	6	4
Volume of shipments	15	8	4	4
Volume of new orders	13	15	11	11
Backlog of orders	-3	3	-15	-2
Number of employees	-15	7	-13	-14
Average employee workweek	-9	6	-6	-6
Prices received for finished product	10	10	4	2
Prices paid for raw materials	22	6	11	5
Capital expenditures	0	-16	-19	-18
New orders for exports	12	7	-3	3
Supplier delivery time	-5	-3	-2	4
Inventories: Materials	-28	-16	-20	-27
Inventories: Finished goods	-24	-11	-24	-29

Tenth District Manufacturing Production Index

