



News Release

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Manufacturing activity in the Kansas City Federal Reserve District was practically flat in January according to a quarterly survey of manufacturers across the region. The survey takes a snapshot of manufacturing activity during the first month of each quarter by asking plant managers about a variety of manufacturing indicators.

According to Ricardo C. Gazel, economist and author of the survey, the small positive change last month represents a marginal improvement over the last two surveys, as production was flat in October and declined in July. By most measures, growth in the manufacturing sector remains anemic, suggesting that the overall weakness of manufacturing at the national level and declining conditions of international markets continue to have a negative impact on district manufacturing plants and factories.

Inventories for finished goods edged up in January, along with production, but shipments edged down. Prices received for finished goods declined for the fifth consecutive quarter, reflecting sluggish demand and increased competition from foreign competitors. Prices of raw materials also declined in January, although at a slower pace than registered in October. Overall, district manufacturing was practically at the same level of one year ago but still outperforming the nation. Manufacturers expectations for growth in the next six months has improved substantially, to a level close to that of one year ago.

The January survey included 164 responses from manufacturing plants throughout the seven states of the Tenth District. Survey results will be published in the First Quarter 1999 issue of the Bank's *Regional Economic Digest*.

A summary of the January survey is attached to this press release. A copy of the previous quarterly survey (October 1998) is also attached.

For more information about the quarterly manufacturing survey, contact Ricardo Gazel, Economic Research Department, (816) 881-2221.

The First Quarter manufacturing survey, as well as background information and results from past surveys, can be found on the Federal Reserve Bank of Kansas City's home page on the Internet's World Wide Web, <http://www.kc.frb.org>.

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Survey of Tenth District Manufacturers

By Ricardo C. Gazel

Manufacturing activity in the Kansas City Federal Reserve District was practically flat in January, according to a quarterly survey of manufacturers across the district. The small positive change last month represents a marginal improvement over the last two surveys, as production was flat in October and declined in July. The survey takes a snapshot of manufacturing the first month of each quarter by asking plant managers about a variety of manufacturing indicators (Table 1).

By most measures, growth in the manufacturing sector remains anemic. The overall weakness of manufacturing at the national level and the declining conditions of international markets continue to have a negative impact on district plants and factories. A small decline in shipments resulted in inventories of finished goods edging up again last month. Strong competition from foreign and domestic producers along with sluggish world demand are likely the main reasons that prices received for finished goods declined for the fifth consecutive survey. Probably for the same reasons, prices of raw materials declined again in January, although at a slower pace than in October.

Overall, district manufacturing was practically at the same level of a year ago. But district factories were still outperforming the nation, which continued to experience deeper weakness. Manufacturers' expectations for growth in the next six months improved substantially, to a level close to that of one year ago.

Indicators of recent activity

Factory production in the district edged up in January, following a flat reading in October and a marginal decline in July (Chart 1). Factory production remained higher than a year ago, but only

marginally, reflecting the slow but steady weakening of activity over the last three quarters.

Other indicators of current manufacturing activity in the district were mixed, but overall they suggest continued weak performance for the sector. Volume of shipments edged down while volume of new orders edged up; and the number of employees edged up, but the average employee workweek continued to edge down. Backlogs decreased once more, but at a slower rate than in our previous survey, and supplier delivery times also declined. Capital expenditures were flat compared with the previous year, likely reflecting a level of capacity utilization which has recently been below historical averages.

District plants continued to experience the impact of overseas economic problems, as new orders for exports declined again. The recent problems in Brazil and the likely spillover to other South American countries will add to the difficulties district factories are already facing in their export markets. However, South American countries represent only a small portion of the district manufacturing export market overall, and the impacts of the crisis are likely to be small.

Inventories for finished goods edged up in January, along with production, but shipments edged down. Consistent with the overall slowdown in activity, inventories of raw materials were unchanged for the second consecutive quarter. Manufacturers held slightly larger inventories of both finished goods and raw materials than a year ago. Compared to levels reported in October, inventory accumulations were marginally lower for materials but larger for finished goods.

Consistent with the mixed signs of overall manufacturing performance in January, employ-

ment at district factories edged up while the average employee workweek edged down. Employment growth, although only marginal, represented an improvement from October, when job levels declined. On the other hand, the average employee workweek declined for the third consecutive quarter. Compared with one year ago, both employment and the average workweek were marginally down. Despite the weak performance, it is important to note that the district manufacturing sector continued to outperform the nation. For example, district manufacturing employment was flat in 1998 according to government estimates, while jobs at the national level declined 1.2 percent.

Prices for finished goods declined in January for the fifth consecutive survey, reflecting sluggish demand and increased competition from foreign competitors. The same market conditions have also affected prices for raw materials, which declined for the second time since the survey started in October 1994. Prices for finished goods were generally unchanged from year-ago levels and were only marginally higher for raw materials.

The outlook

District manufacturers in January became substantially more optimistic about the near future, with expectations rebounding to levels registered in the first half of 1998 after declining sharply in our last survey. For example, the index of future production increased to 40 from 15 in October. Similarly, the index for future shipments and new orders

jumped from 13 and 17 in our previous survey to 43 and 42 in January, respectively. As new orders increase, managers expect the backlog of orders to increase as well. Consistent with this higher level of optimism about the future, managers expect coming months to bring more factory jobs and a longer average workweek. The index of the number of employees expected in six months rebounded from 1 in October to 20 in January, while the average employee workweek future index jumped from -12 in October to 8 in January. Despite the higher level of optimism, manufacturers remain skeptical that prices will reflect the expected higher demand for manufacturing goods. Faced with higher levels of foreign competition, respondents appear to believe that prices for materials will rise in the near future, but it will be difficult to raise prices for final products. District manufacturers have also revised their expectations about industry activity at the national level, with the index rising to 31 in January from a meager 6 in October.

In summary, despite the current weak performance of the district and the national manufacturing sectors, district managers seem to believe that the worst is behind them and they envision a much brighter future than they did three months ago.

Ricardo C. Gazel is a senior economist at the Federal Reserve Bank of Kansas City. Information on the development of the manufacturing survey appeared in "Tenth District Survey of Manufacturers" by Tim R. Smith, which was published in the Fourth Quarter 1995 issue of the *Economic Review*.

Chart 1
Tenth District Manufacturing Production Index

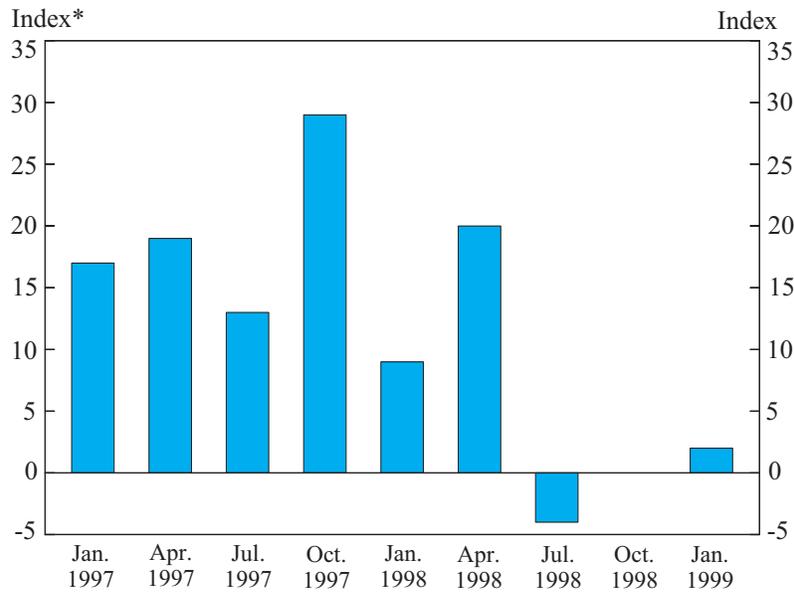


Table 1
Summary of Tenth District Manufacturing Conditions, January 1999

Plant level indicators	January vs. December (percent)				January 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	46	26	2	38	28	34	4	54	32	14	40
Volume of shipments	28	43	29	-1	42	21	37	5	55	34	12	43
Volume of new orders	31	41	28	3	43	23	34	9	52	38	10	42
Backlog of orders	20	56	24	-4	21	43	36	-15	27	58	14	13
Number of employees	20	61	19	1	35	28	37	-2	33	54	13	20
Average employee workweek	16	66	18	-2	21	54	24	-3	17	74	9	8
Prices received for finished product	8	71	21	-13	29	42	29	0	17	69	15	2
Prices paid for raw materials	9	74	17	-8	32	38	30	2	26	62	12	14
Capital expenditures	—	—	—	—	28	44	28	0	31	55	14	17
New orders for exports	12	69	19	-7	20	54	26	-6	24	65	11	13
Supplier delivery time	2	93	5	-3	7	82	11	-4	10	82	8	2
Inventories:												
Materials	25	50	25	0	35	38	27	8	21	52	27	-6
Finished goods	27	49	24	3	36	43	21	15	22	48	30	-8
Industry activity, national level	17	56	27	-10	34	29	37	-3	43	44	12	31

* 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 January survey included 164 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

SURVEY OF TENTH DISTRICT MANUFACTURERS OCTOBER, 1998

Chart 1
Tenth District Manufacturing Production Index

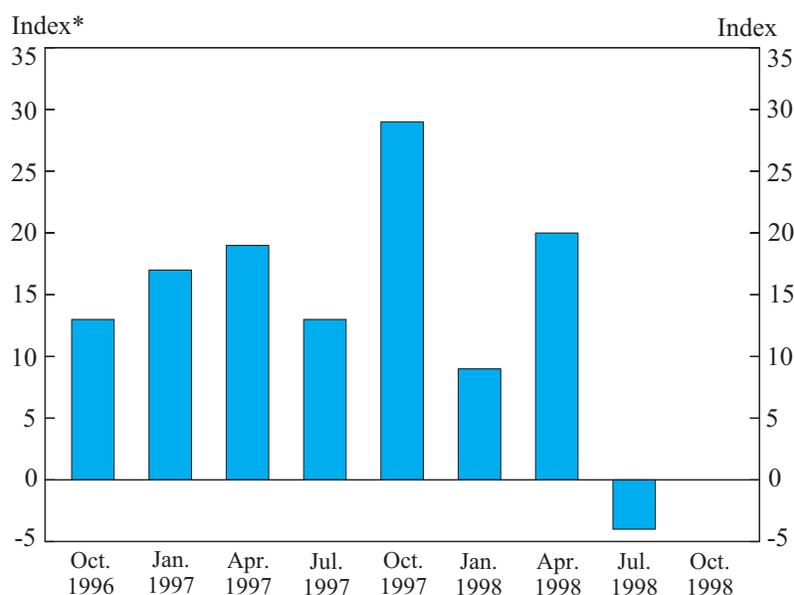


Table 1
Summary of Tenth District Manufacturing Conditions, October 1998

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	44	28	0	45	22	33	12	40	34	26	14
Volume of shipments	35	33	32	3	43	21	36	7	41	31	28	13
Volume of new orders	35	31	34	1	39	25	36	3	42	33	25	17
Backlog of orders	18	47	35	-17	26	38	36	-10	23	52	24	-1
Number of employees	16	59	25	-9	34	33	33	1	23	55	22	1
Average employee workweek	16	61	22	-6	26	51	23	3	11	64	25	-14
Prices received for finished product	4	81	15	-11	26	46	28	-2	21	60	18	3
Prices paid for raw materials	3	73	23	-20	29	33	38	-9	21	62	17	4
Capital expenditures	—	—	—	—	31	37	32	-1	24	50	27	-3
New orders for exports	12	61	27	-15	15	56	29	-14	20	65	15	5
Supplier delivery time	3	89	8	-5	8	84	9	-1	6	86	8	-2
Inventories: Materials	22	57	22	0	34	42	25	9	13	48	38	-25
Finished goods	29	48	22	7	32	41	27	5	17	50	32	-15
Industry activity, national level	24	45	32	-8	34	24	41	-7	37	33	31	6

* 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 146 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.