



# News Release

## Federal Reserve Bank of Kansas City

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Manufacturing activity in the Kansas City Federal Reserve District was flat in April 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 and Chad R. Wilkerson, authors of the survey, despite sluggish manufacturing activity over the last four quarters and employment below year-ago levels, managers have continued to build on the optimism they expressed in January about district factory activity in the near future.

Inventories for finished goods edged down in April after a small buildup in January but remained marginally above year-ago levels. Prices received for finished goods declined for the sixth consecutive quarter, likely due to strong competition from foreign and domestic producers and continued overall anemic demand conditions. Prices of raw materials also edged up in April, likely reflecting the small gains in the sector at the national and international levels. Overall, production in district manufacturing plants was virtually unchanged from a year ago although employment remained below year-ago levels. Manufacturers' expectations for growth in the next six months edged up in April after a substantial jump in the last survey.

The April survey included 163 responses from manufacturing plants throughout the seven states of the Tenth District. Survey results will be published in the Second Quarter 1999 issue of the Bank's Regional Economic Digest.

A summary of the April survey is attached to this press release. A copy of the previous quarterly survey (January 1999) is also attached.

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

The Second 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 and Chad R. Wilkerson

**M**anufacturing activity in the Tenth Federal Reserve District was flat in April, the fourth consecutive quarter of sluggish performance, according to a quarterly survey of manufacturers across the district. 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).

Despite sluggish overall conditions in the district manufacturing sector, there are signs of small improvements, such as marginal gains in the volume of new orders and a slightly longer average employee workweek. Additionally, the survey results suggest a modest expansion in industry activity at the national level following three quarters of contraction. For the sixth consecutive quarter, producers reported lower prices for finished goods due mainly to strong competition from foreign and domestic producers and continued overall anemic demand conditions. In contrast, after declining for two consecutive surveys, prices of raw materials edged up in April, likely reflecting the small gains in the sector at the national and international levels.

Overall, production in district manufacturing plants was virtually unchanged from a year ago, although employment remained below year-ago levels. Manufacturers' expectations for growth in the next six months edged up in April after a substantial jump in the last survey.

## *Indicators of recent activity*

Factory production in the district was flat in April after edging up in January and holding steady in October (Chart 1). The consistent weakening of activity in the last four quarters resulted in factory production in April staying virtually the same as a year ago.

Consistent with the recent past, other indicators of current manufacturing activity in the district were mixed, although they showed marginal improvements overall. For example, the volume of shipments edged down again in April, but the volume of new orders edged up for the third quarter in a row. Similarly, the number of employees edged down in April, while the average employee workweek edged up. Backlogs decreased for the sixth consecutive time, while supplier delivery times edged up. District plants continued to feel the impact of overseas economic problems as new orders for exports declined again, but only marginally compared to larger declines in our two previous surveys. The recent improvements in Asia and the fast recovery of Brazil seemed to reduce the level of difficulties district factories were facing in their export markets. Capital expenditures edged down in April as the level of capacity utilization remained below historical averages. Capital expenditures have not been positive since our survey of July 1998.

Inventories of finished goods edged down in April after a small buildup in January but remained marginally above year-ago levels. Reflecting the overall slowdown in activity, inventories of raw materials edged down following two quarters of virtually no change. As a result of the decline in inventories of raw materials, stocks were below year-ago levels for the first time since October 1996.

Employment at district factories edged down in April, but the average employee workweek edged up. These results were just the opposite in January, when employment edged up and workweek edged down. However, both surveys improved on the results registered in October when both indicators were down. Compared with a year ago, both employment and employee workweek were still marginally down. The

Chart 1  
Tenth District Manufacturing Production Index

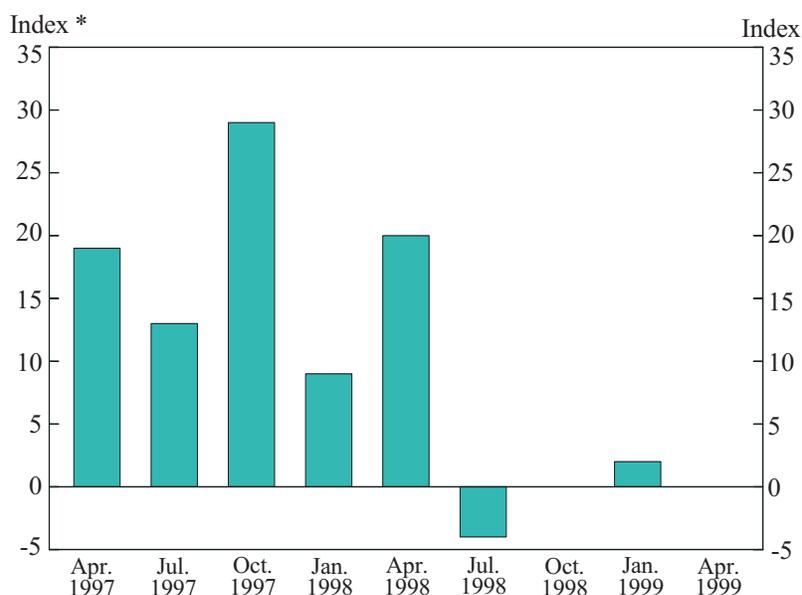


Table 1  
Summary of Tenth District Manufacturing Conditions, April 1999

Plant level indicators	April vs. March (percent)				April 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	30	40	30	0	41	19	39	2	52	38	10	42
Volume of shipments	31	36	34	-3	41	19	40	1	54	37	9	45
Volume of new orders	31	43	27	4	39	26	34	5	53	37	10	43
Backlog of orders	19	56	25	-6	29	41	30	-1	31	55	14	17
Number of employees	18	60	23	-5	31	32	37	-6	32	52	16	16
Average employee workweek	19	66	15	4	23	51	27	-4	26	64	10	16
Prices received for finished product	7	81	11	-4	23	50	27	-4	21	71	8	13
Prices paid for raw materials	15	75	10	5	35	34	31	4	27	64	10	17
Capital expenditures	—	—	—	—	24	46	31	-7	31	52	17	14
New orders for exports	10	78	13	-3	18	62	20	-2	25	69	6	19
Supplier delivery time	7	86	6	1	9	79	13	-4	9	85	6	3
Inventories:												
Materials	19	55	26	-7	29	36	35	-6	20	48	32	-12
Finished goods	21	54	24	-3	33	38	29	4	22	49	29	-7
Industry activity, national level	29	52	20	9	39	25	36	3	49	38	13	36

\* 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 April survey included 163 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

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district manufacturing sector continued to outperform the nation despite recent weak performances. For example, district manufacturing employment in March was 0.5 percent lower than a year ago, compared to a 2.0 percent decline for the nation as a whole.

Prices for finished goods declined in April for the sixth consecutive survey, reflecting once more sluggish demand conditions and increased competition from foreign producers. However, the rate of decline was slower than in the two previous surveys, suggesting that conditions have improved recently, albeit marginally. Prices for raw materials edged up, likely reflecting the improvements in the manufacturing sector at the national and international levels. Compared to a year ago, prices for finished goods were marginally lower, while prices for raw materials were marginally higher.

### *The outlook*

District manufacturers in April reaffirmed their optimism about future factory activity. The index of future production edged up to 42 in April from 40 in January, well above the 15 posted in October. The indices for future shipments and new orders rose marginally as well, to 45 and 43, respectively, to stay well above October lows. The expectation of an increase in

the volume of new orders has also caused managers to predict further growth in their backlog of orders. To match the expected rise in activity, managers report the number of employees at district plants is likely to grow over the next six months. In addition, managers expect employee workweeks to lengthen. Managers are more optimistic about the prices for finished products than they have been in a year. However, they believe prices for raw materials will also continue to rise as manufacturing improves across the country and around the world. Expectations about future industry activity at the national level are at their highest level since January 1998, before the Asian crisis had spread to other parts of the world. And expectations of new orders for exports also continues to improve, from an index of 5 in October to 13 in January and 19 in April.

In summary, despite sluggish manufacturing activity over the last four quarters and employment below year-ago levels, managers have continued to build on the optimism they expressed in January about district factory activity in the near future.

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Ricardo C. Gazel is a senior economist at the Federal Reserve Bank of Kansas City. Chad R. Wilkerson is a research associate at the bank. 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*

## SURVEY OF TENTH DISTRICT MANUFACTURERS JANUARY, 1999

Chart 1  
**Tenth District Manufacturing Production Index**

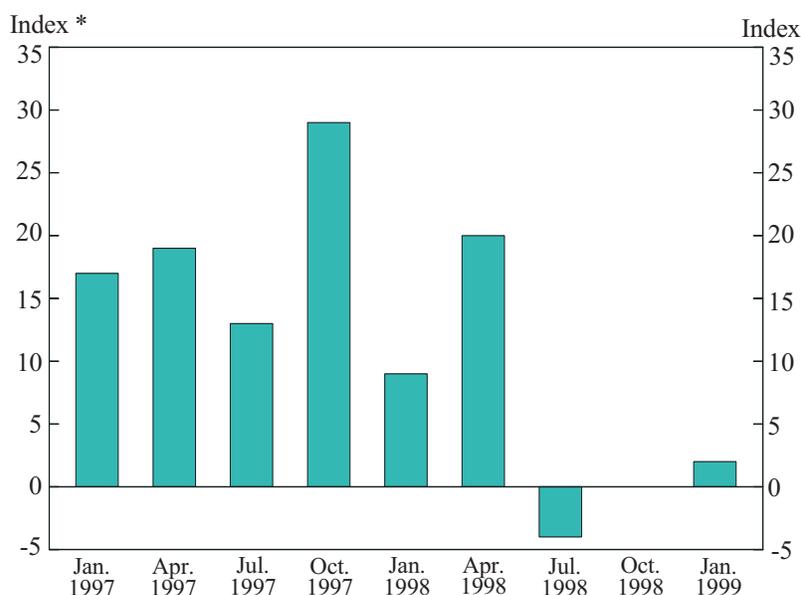


Table 1  
**Summary of Tenth District Manufacturing Conditions, January 1999**

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