News Release

Federal Reserve Bank of Kansas City

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Manufacturing conditions in the Kansas City Federal Reserve District remained sluggish in July, 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 survey authors Ricardo C. Gazel, senior economist, and Chad R. Wilkerson, research associate, factory production in the district was flat in July, the fifth consecutive survey that plant managers have reported sluggish activity. Most indicators of factory activity changed little from levels posted in the April survey. The volume of shipments edged down again, while the volume of new orders rose slightly. New orders for exports increased for the first time in over a year, as economic recoveries continued around the world. The slight decline in the volume of shipments in July resulted in an increase in inventories of finished goods. In summary, factory managers remained quite optimistic about future manufacturing activity in the region, despite flat production over the past year and a half and declining employment over most of that period.

The July survey included 167 responses from manufacturing plants throughout the seven states of the Tenth District. Survey results will be published in the Third Quarter 1999 issue of the Bank's *Regional Economic Digest*.

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

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

The Third 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, **www.kc.frb.org**.

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Survey of Tenth District Manufacturers

By Ricardo C. Gazel and Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District remained sluggish in July, marking the fifth consecutive quarterly survey to suggest weak factory performance in this part of the country. The survey takes a snapshot of manufacturing the first month of each quarter by asking plant managers in the region about a variety of manufacturing indicators (Table 1).

Production at district manufacturing plants was flat in July. Sluggish activity in Kansas, Colorado, and Missouri was offset by slight improvements in Nebraska and more substantial gains in Oklahoma. Most indicators of factory activity were similar to the April survey, with a few notable exceptions. For example, new orders for exports continued to improve, as the economies of Asia and Latin America recovered further. Prices paid for raw materials also jumped considerably in July following a slight rise in April, as oil prices rose again and manufacturing activity around the world continued to improve. Meanwhile, prices received for final products steadied following small declines in the previous six manufacturing surveys.

Production at district plants remained marginally higher than in the previous year, while the number of employees continued to fall. Manufacturers' expectations for growth in the next six months were slightly lower than in the previous two surveys, but still much higher than last fall.

Indicators of recent activity

Factory production in the district was flat in July, the fifth consecutive survey that plant managers have reported sluggish activity (Chart 1). Production of both durable and nondurable goods remained virtually unchanged in the region as a whole. It is important to note, however, that the survey data is not seasonally adjusted, and since the survey started in October 1994, the production index has always fallen from April to July. Thus, the flat reading in July is likely to include some seasonal factors, and the current status of the sector may be a bit stronger than the data suggest. Nonetheless, compared with a year ago, overall production at district manufacturing plants was only marginally higher, a repeat of the last two surveys.

Most indicators of factory activity changed little from levels posted in the April survey. The volume of shipments edged down again, while the volume of new orders rose slightly. Supplier delivery times were unchanged and the backlog of orders fell for the seventh straight survey. The number of employees continued to fall, while the average employee workweek increased slightly, consistent with trends suggested by the employment data published by the Bureau of Labor Statistics.

New orders for exports increased for the first time in over a year, as economic recoveries continued around the globe. The increase was large enough to push export orders above year-ago levels. Prices paid for raw materials rose considerably from the April survey, likely due to higher oil prices in recent months and increased demand as factory activity improved nationally and internationally. Prices received for finished products steadied in July after declining in each of the past six manufacturing surveys. Stiff domestic competition as well as competition from imported goods have likely kept higher costs from being passed on to buyers.

The slight decline in the volume of shipments in July resulted in an increase in inventories of finished goods. Meanwhile, inventories of raw materials remained basically flat after a moderate decline in April, pushing stocks to below year-ago levels.

Chart 1

Tenth District Manufacturing Production Index

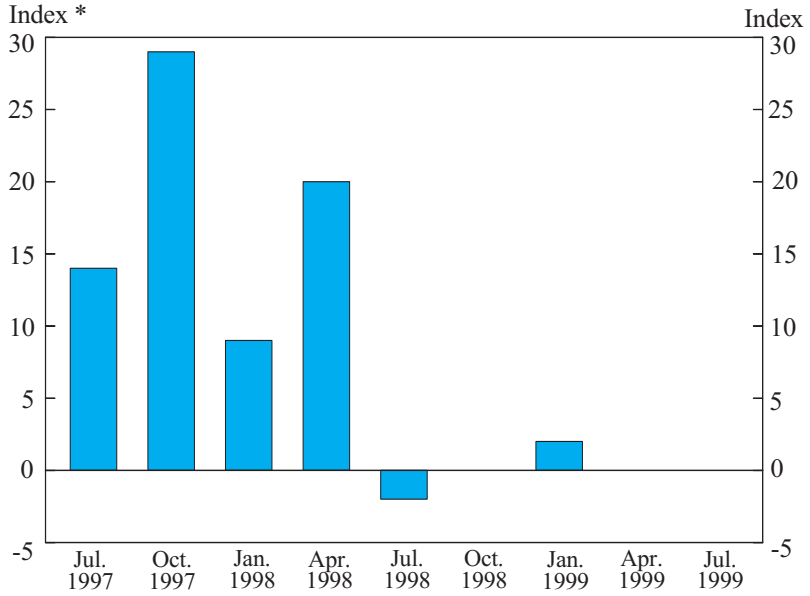

Table 1

Summary of Tenth District Manufacturing Conditions, July 1999

	July vs. June (percent)				July vs. Year ago (percent)				Expected in six months (percent)			
Plant level indicators	Increase	No change	Decrease	Index*	Increase	No change	Decrease	Index*	Increase	No Change	Decrease	Index*
Production	28	44	28	0	40	24	36	4	52	34	14	38
Volume of shipments	28	40	32	-4	41	22	37	4	56	30	14	42
Volume of new orders	30	46	25	5	45	29	26	19	54	35	11	43
Backlog of orders	21	53	27	-6	31	41	28	3	29	53	18	11
Number of employees	15	66	19	-4	35	31	35	0	27	62	11	16
Average employee workweek	17	68	14	3	20	57	22	-2	20	72	7	13
Prices received for finished product	11	78	11	0	33	46	21	12	20	70	10	10
Prices paid for raw materials	22	69	8	14	44	39	17	27	35	57	8	27
Capital expenditures	—	—	—	—	28	40	32	-4	30	55	16	14
New orders for exports	14	77	10	4	21	66	14	7	28	66	6	22
Supplier delivery time	5	90	5	0	11	81	8	3	10	85	5	5
Inventories: Materials	22	55	23	-1	28	37	35	-7	21	54	25	-4
Finished goods	23	56	21	2	33	39	28	5	23	50	27	-4
Industry activity, national level	24	51	24	0	41	27	32	9	44	44	12	32

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

Capital expenditures at district plants remained below year-ago levels in July and have not been positive since last July, as capacity utilization has stayed at comfortable levels. Plant managers in the district perceived that factory activity at the national level was flat in July after rising moderately in April and falling in the three prior surveys.

The outlook

Manufacturers in the district remained quite optimistic about future factory activity. The index of future production was 38 in July, down slightly from 42 in April and 40 in January, but well above the 14 registered in October. Expectations for most factory indicators showed little change from the April survey. The indices for important measures such as the expected volume of shipments, new orders, number of employees, and capital expenditures were all positive, very similar to levels reported in April. Similarly, prices for finished products were predicted to increase moderately over the next six months. However, a greater share of managers than in the previous survey expected further increases in prices for raw materials, and a slightly larger percentage foresaw increased orders for exports. Managers also reported that the expected higher volume of shipments in coming months should lead to slightly lower inventory levels.

In summary, factory managers in the Tenth District remained quite optimistic about future manufacturing activity in the region, despite flat production over the past year and a half and declining employment over most of that period.

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 Review*.

SURVEY OF TENTH DISTRICT MANUFACTURERS
APRIL, 1999

Chart 1

Tenth District Manufacturing Production Index

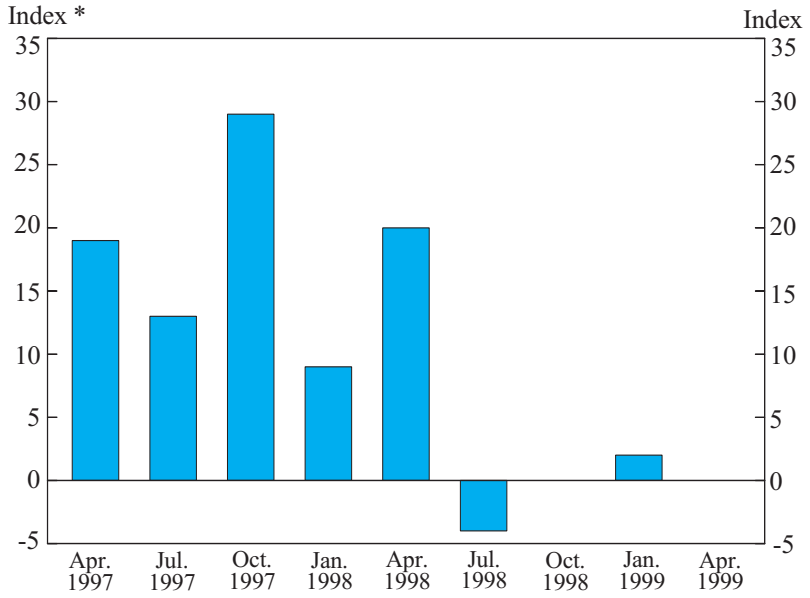

Table 1

Summary of Tenth District Manufacturing Conditions, April 1999

	April vs. March (percent)				April vs. Year ago (percent)				Expected in six months (percent)			
Plant level indicators	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.