



News Release

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Manufacturing conditions in the Kansas City Federal Reserve District showed some signs of strength in October following a year and a half of sluggish performance, 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 the author of the survey, Chad Wilkerson, research associate, manufacturers in the district were somewhat less optimistic in October about future factory activity than in recent surveys. The index of future production fell to 25 after hovering around 40 in the year's three previous surveys. This index number was the third lowest in the history of the survey but still well above the 14 registered a year ago, when anxiety about the fallout of the Asian economic crisis was still fairly widespread.

Expectations for shipments and new orders were also down considerably from the April and July surveys but still comfortably positive. A higher percentage of manufacturers than in the recent past expected continued increases in raw material prices. At the same time, however, manufacturers were more optimistic about receiving higher prices for finished products than in almost two years.

In summary, plant managers in the Tenth District are somewhat less optimistic about future manufacturing activity in the region than earlier in the year, even though production in the region increased more in October than at any time in the recent past.

The October survey included 157 responses from manufacturing plants throughout the seven states of the Tenth District. A summary of the October survey is attached to this press release. A copy of the previous quarterly survey (July 1999) is also attached.

For more information about the quarterly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869.

The Fourth 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 web site, <http://www.kc.frb.org>.

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Survey of Tenth District Manufacturers

By Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District showed some signs of strength in October following a year and a half 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 in the region about a variety of manufacturing indicators (Table 1).

The net percentage of Tenth District firms reporting higher levels of production and shipments increased markedly in October following flat activity in the previous five surveys. Most of the improvement appeared to come at plants producing durable goods such as machinery and transportation equipment, but production at nondurable goods-producing plants also strengthened slightly. The gains were fairly widespread across district states. The share of Colorado, Missouri, and Oklahoma firms indicating increased activity jumped considerably in October. In Nebraska, the production index fell slightly but remained positive. For the sixth survey in a row, Kansas had more firms with declines in activity than increases, although the state's production index has become less negative in each of the last two surveys.

Despite the increases in production and shipments, many quarterly indicators of factory activity, including volume of new orders, backlog of orders, and number of employees, remained similar to the July manufacturing survey. A notable exception was raw materials prices. The highest percentage of firms in four years reported increased costs for materials in October, possibly reflecting higher worldwide demand for goods in recent months. Another difference from recent surveys was that somewhat fewer firms expected production and shipments to improve during the next six months.

Indicators of recent activity

Factory production and shipments in the district increased in October after five consecutive surveys in which plant managers reported sluggish activity (Chart 1). It is important to note, however, that the survey data are not seasonally adjusted and, as suggested in the July survey report, activity may have already been improving during the summer. Since the survey started in 1994, the production index has always fallen from April to July and risen from July to October. Thus, the flat reading in July may have included some seasonal factors, and the status of the sector may have been a bit stronger at that time than the data suggested. Nevertheless, activity compared with a year ago was considerably higher in October than at any time in the recent past, providing firmer evidence of a stronger manufacturing sector in the region.

Most other indicators were similar to previous surveys. As in the last five surveys, the volume of new orders was little changed from the previous month, suggesting that higher production levels may be somewhat short-lived. New orders for exports were also flat but much improved from a year ago, as the economies of Asia and Latin America continued to recover. Supplier delivery times rose slightly, but the backlog of orders fell for the eighth straight survey. The number of employees continued to fall, while the average employee workweek continued to rise, consistent with trends suggested by the employment data published by the Bureau of Labor Statistics. Inventories of both raw materials and finished goods fell in October, as production and shipments increased. Capital expenditures at district plants jumped above year-ago levels in October for the first time since last summer. After reporting mixed feelings about factory activity at the national level in the July survey, a larger percentage of plant managers in

the district perceived a strong national manufacturing sector in October.

There was some evidence of increased price pressures for raw materials but not for final goods. Prices paid for raw materials continued to rise in the face of improving world demand conditions. Prices received for finished products remained basically flat for the second straight survey, but were still higher than a year ago.

The outlook

Manufacturers in the district were somewhat less optimistic in October about future factory activity than in recent surveys. The index of future production fell to 25 after hovering around 40 in the year's three previous surveys. This index number was the third lowest in the history of the survey but still well above the 14 registered a year ago, when anxiety about the fallout of the Asian economic crisis was still fairly widespread. Expectations for shipments and new orders were also down considerably from the April and July

surveys but still comfortably positive. Managers reported expectations of shorter employee work-weeks for the first time in a year, but also predicted that the number of employees would increase by next spring. A higher percentage of manufacturers than in the recent past expected continued increases in raw materials prices. At the same time, however, manufacturers were more optimistic about receiving higher prices for finished products than in almost two years.

In summary, plant managers in the Tenth District are somewhat less optimistic about future manufacturing activity in the region than earlier in the year, even though production in the region increased more in October than at any time in the recent past.

Chad R. Wilkerson is a research associate 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

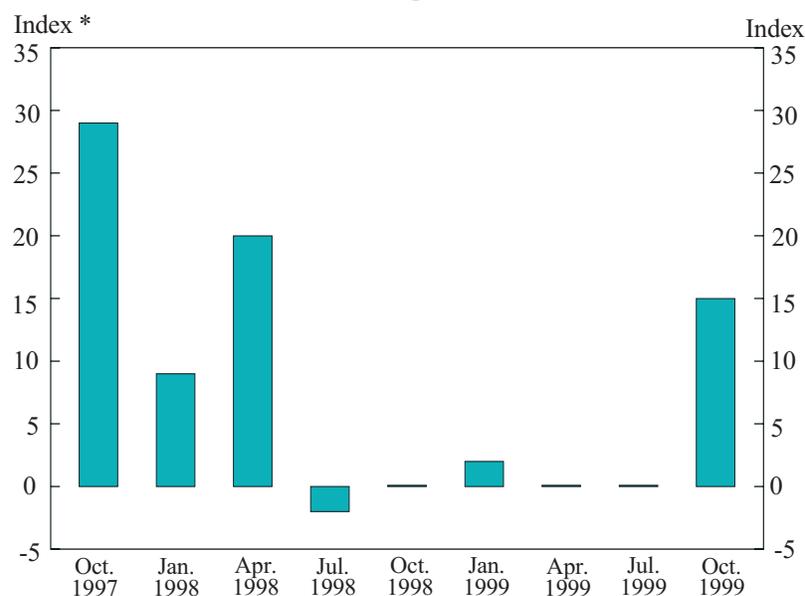


Table 1
Summary of Tenth District Manufacturing Conditions, October 1999

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	34	47	19	15	47	25	28	19	45	34	20	25
Volume of shipments	37	41	22	15	45	25	30	15	45	33	22	23
Volume of new orders	30	43	27	3	41	29	29	12	42	38	21	21
Backlog of orders	23	51	27	-4	29	39	32	-3	24	52	24	0
Number of employees	19	60	21	-2	32	27	40	-8	30	54	17	13
Average employee workweek	21	67	12	9	27	51	22	5	10	72	18	-8
Prices received for finished product	11	77	12	-1	37	45	18	19	33	58	9	24
Prices paid for raw materials	28	65	8	20	49	37	13	36	41	53	6	35
Capital expenditures	—	—	—	—	32	48	20	12	34	50	16	18
New orders for exports	12	77	11	1	22	66	12	10	22	71	7	15
Supplier delivery time	10	87	4	6	15	78	7	8	11	85	5	6
Inventories:												
Materials	19	54	27	-8	28	39	33	-5	16	58	26	-10
Finished goods	18	59	23	-5	26	43	30	-4	16	58	26	-10
Industry activity, national level	29	52	19	10	40	28	31	9	37	43	21	16

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

SURVEY OF TENTH DISTRICT MANUFACTURERS JULY, 1999

Chart 1
Tenth District Manufacturing Production Index

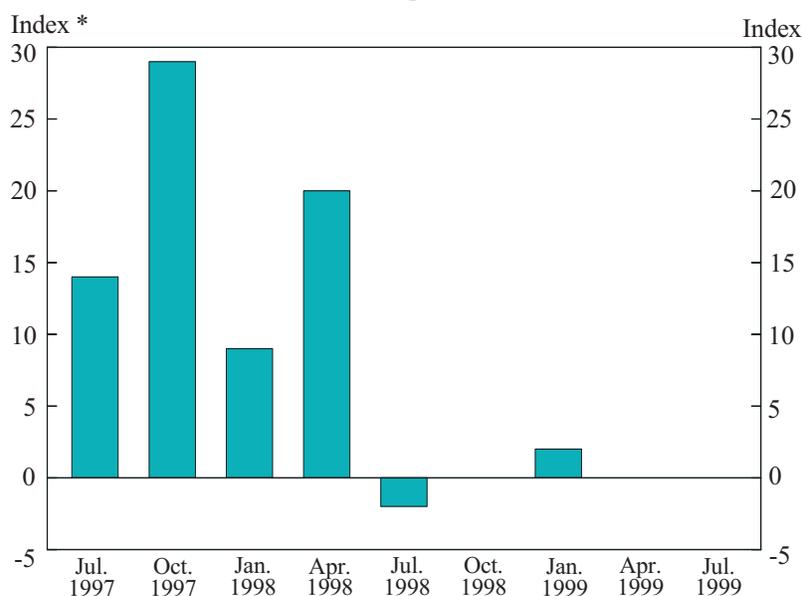


Table 1
Summary of Tenth District Manufacturing Conditions, July 1999

Plant level indicators	July vs. June (percent)				July 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	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.

M E M O R A N D U M T O T H E M E D I A

2000 Release Dates for Kansas City Fed's Manufacturing Survey

The Federal Reserve Bank of Kansas City has announced the 2000 release dates for its quarterly survey covering manufacturing activity in the seven states of the Tenth Federal Reserve District. The survey is designed to track the performance of the region's manufacturing sector.

Approximately 275 manufacturing plants that are representative of the district's manufacturing sector make up the survey panel.

Upcoming survey results will be released to the news media on the following schedule:

- **First Quarter 2000 Wednesday, February 16, 2000**
- **Second Quarter 2000 Wednesday, May 17, 2000**
- **Third Quarter 2000 Wednesday, August 16, 2000**
- **Fourth Quarter 2000 Wednesday, November 15, 2000**

For more information about the manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869.

The manufacturing survey, as well as results from past surveys, can be obtained in electronic form from the Federal Reserve Bank of Kansas City's Web site: <http://www.kc.frb.org>.