
Survey of Tenth District Manufacturers

By William R. Keeton

Manufacturing activity in the Kansas City Federal Reserve District continued to improve in January, according to a quarterly survey of manufacturers across the district. 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 (Table 1). By most measures, manufacturing showed a modest expansion during January. District factories left their materials inventories unchanged and slightly boosted their stocks of finished goods. Prices received for finished goods generally remained unchanged, while prices of raw materials increased only slightly. Overall, manufacturing remained stronger than a year ago, and manufacturers were optimistic about the outlook for the next six months.

Indicators of recent activity

Production grew modestly across the district in January, at a pace somewhat faster than in October. The production index was 17 in January, up from 13 in October (Chart 1). Moreover, production remained moderately above year-ago levels.

Most other indicators of current manufacturing activity in the district also suggested expansion in January. Shipments and new orders continued to increase at a modest pace, while supplier delivery times and order backlogs remained stable. Capital expenditures were up slightly from a year ago. As in the previous survey, export orders increased slightly over the previous month.

Inventories edged up in January as production outpaced shipments. The index for finished goods was modestly positive and the index for raw materials was close to zero, up slightly from October levels. Compared with a year ago, respondents held slightly larger inventories of finished goods, while inventories of materials were unchanged.

Employment rose at district factories in January, showing slightly bigger gains than in October. The average employee workweek also increased. Plant work force levels and the average workweek were both somewhat higher than a year ago.

Price increases remained more widespread for raw materials than for finished goods in January. As in the previous survey, slightly more respondents reported increases in materials prices than decreases. Prices for final products generally held steady but were up moderately from a year ago.

The outlook

District manufacturers are optimistic about the near-term outlook and generally more upbeat than in the last survey. Indexes of activity expected in the next six months continue to signal expansion. The index of future production jumped from 27 in October to 47 in January, with well over half of the respondents expecting their production to increase over the next six months. Respondents also expect gains in both factory jobs and the average workweek in the coming months. Prices of finished goods and raw materials are expected to rise somewhat, with materials prices outpacing finished goods prices. District manufacturers also expressed increased optimism about national business conditions.

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Chart 1
Tenth District Manufacturing Production Index

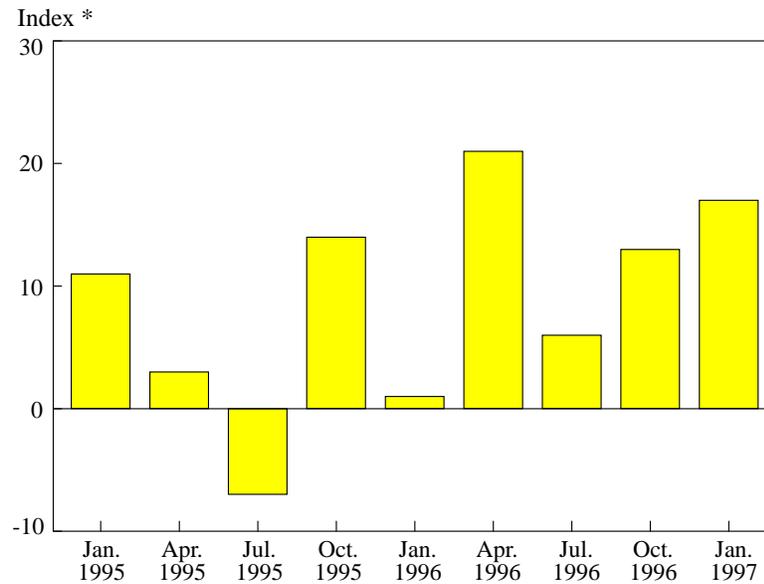


Table 1
Summary of Tenth District Manufacturing Conditions, January 1997

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	41	35	24	17	52	24	23	29	59	27	12	47
Volume of shipments	44	26	30	14	51	21	27	24	62	25	12	50
Volume of new orders	40	36	23	17	50	21	26	24	57	30	10	47
Backlog of orders	22	54	21	1	29	38	29	0	33	51	11	22
Number of employees	26	57	16	10	44	25	29	15	38	51	8	30
Average employee workweek	21	64	14	7	22	62	15	7	24	68	7	17
Prices received for finished product	13	70	15	-2	44	36	18	26	32	55	11	21
Prices paid for raw materials	17	72	11	6	53	23	23	30	40	49	9	31
Capital expenditures	—	—	—	—	33	40	25	8	37	46	16	21
New orders for exports	16	61	8	8	26	49	12	14	32	51	2	30
Supplier delivery time	1	92	4	-3	5	84	7	-2	6	86	4	2
Inventories:												
Materials	20	57	22	-2	30	38	30	0	22	50	26	-4
Finished goods	26	53	18	8	30	43	24	6	25	49	23	2
Industry activity, national level	27	51	19	8	44	28	23	21	44	43	9	35

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