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# Survey of Tenth District Manufacturers

By Tim R. Smith

**M**anufacturing conditions in the Kansas City Federal Reserve District improved in April after weakening 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. Led by a rebound in production, all measures of manufacturing show increasing activity in April. Inventories of materials and finished goods edged up at district factories. Price increases for raw materials were slightly less widespread in April than when the survey was last taken in January. Prices of finished goods remained stable. Manufacturing activity generally remained stronger than a year ago, and manufacturers expressed optimism about the outlook for the next six months.

## *Indicators of recent activity*

*Production* grew moderately across the district in April after a pause in January. The production index rebounded to its highest level since the survey began in October 1994. Moreover, respondent perceptions of manufacturing activity elsewhere in the nation turned around sharply from a somewhat pessimistic view in January.

Most other indicators of current manufacturing activity in the district suggest a moderate expansion in April. After dipping below zero in January, indexes for shipments and new orders turned positive in April. Although supplier delivery time held steady, backlogs of orders increased slightly. Gains in manufacturing activity led to modest gains in capital spending in April. Export orders also increased modestly.

*Inventories* edged up during April. The indexes for materials and finished goods both rose slightly. Compared with a year ago, respondents are maintaining

larger inventories of materials but slightly smaller inventories of finished goods.

*Employment* increased modestly at district manufacturing plants in April. Compared with a year ago, both plant workforce levels and the average employee workweek rose slightly.

*Price increases* remained more widespread for raw materials than for finished goods in April. Materials prices increased at 28 percent of the plants surveyed, the same percentage of plants reporting increases in January. Prices for final products held steady during the month but were up from a year ago.

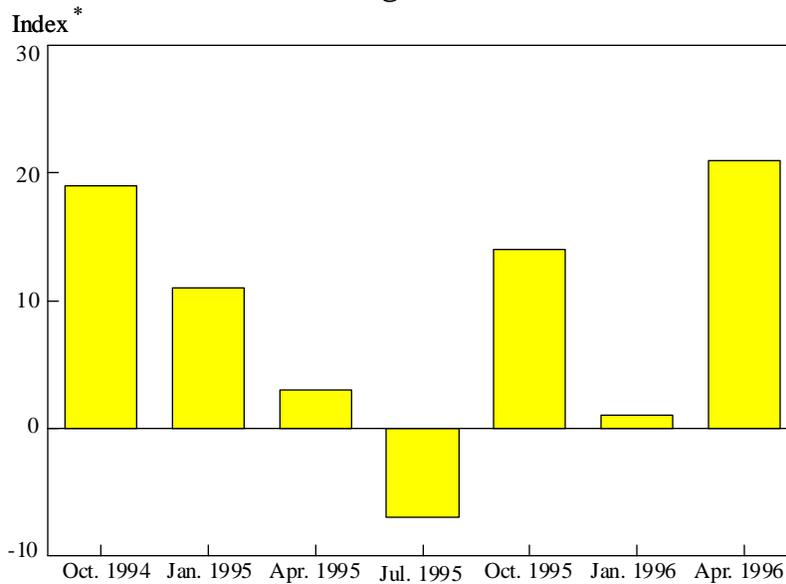
## *The outlook*

District manufacturers generally remain optimistic about the near-term outlook. While down from January, the April indexes suggest activity in the next six months should continue to be solid. For example, the index of future production fell from January to April, but more than half of the respondents still expect production to increase over the next six months. While district manufacturers were somewhat less optimistic about national business conditions in April than in January, their outlook is still positive. Respondents expect modest gains in district factory jobs in the coming months. And while some respondents expect prices of raw materials to rise in the period ahead, fewer respondents expect higher prices for finished goods.

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Tim R. Smith 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 *Economic Review*.

## Tenth District Manufacturing Production Index



## Summary of Tenth District Manufacturing Conditions, April 1996

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	40	41	19	21	52	17	30	22	54	29	18	36
Volume of shipments	44	32	23	21	52	20	28	24	54	25	20	34
Volume of new orders	39	38	23	16	47	27	24	23	53	28	18	35
Backlog of orders	28	47	23	5	33	35	29	4	31	43	22	9
Number of employees	29	54	17	12	40	27	32	8	34	48	18	16
Average employee workweek	20	65	15	5	23	57	20	3	17	65	18	-1
Prices received for finished product	15	72	11	4	46	34	17	29	27	63	8	19
Prices paid for raw materials	28	58	13	15	55	21	21	34	43	46	8	35
Capital expenditures	--	--	--	--	34	40	24	10	36	49	14	22
New orders for exports	17	60	9	8	27	50	9	18	24	58	4	20
Supplier delivery time	5	89	4	1	6	82	9	-3	6	85	7	-1
Inventories:												
Materials	27	49	23	4	34	37	28	6	21	45	33	-12
Finished goods	26	52	21	5	29	40	30	-1	21	48	30	-9
Industry activity, national level	33	45	17	16	40	27	29	11	44	37	16	28

\* 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 192 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.