



News Release

Federal Reserve Bank of Kansas City

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Manufacturing conditions in the Kansas City Federal Reserve District expanded moderately 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, economist and author of the survey, most measures of manufacturing improved from the low rates in January 1998, but are still below their peak achieved in October 1997. Inventories of finished goods edged up at district factories. Prices received for finished goods edged down once more, likely as a result of higher competition from Asian producers. Prices of raw materials were virtually unchanged, after edging up in January. Overall, manufacturing remained stronger than a year ago, and manufacturers were slightly less optimistic about the outlook for the next six months.

The April survey included 174 responses from manufacturing plants throughout the seven states of the Tenth District. Survey results will be published in the Second Quarter 1998 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 1998) 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>.

Survey of Tenth District Manufacturers

By Ricardo C. Gazel

Manufacturing activity in the Kansas City Federal Reserve District expanded moderately in April, 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).

By most measures, growth in the manufacturing sector improved from the low rates in January 1998, but growth rates are still below their peak achieved in October 1997. Much of the slowdown in January may have been the result of seasonal factors. Thus, some of the improvement registered in April should be viewed as a comeback to the regular moderate trend the sector enjoyed the last few years. Inventories of finished goods increased again at district factories. Prices received for finished goods edged down once more, likely as a result of strong competition from Asian producers. Prices of raw materials were virtually unchanged after edging up in January. Overall, manufacturing remained stronger than a year ago, but manufacturers were slightly less optimistic about the outlook for the next six months than in the last survey.

Indicators of recent activity

Factory production in the district grew moderately in April, faster than in January, but slower than in October. The April production index was 20, up from 9 in January (Chart 1). The improvement from the low level in the last survey may reflect seasonal patterns in district manufacturing plants in January. In three of the past four years, the production index fell from October to January and subsequently rose from January to April. Not-

withstanding these seasonal variations, production has risen on a year-over-year basis since the survey began in 1994.

Most other indicators of current manufacturing activity in the district suggested an improvement in April. Shipments and new orders both gained strength compared to slight declines in January. Supplier delivery time was virtually unchanged from the past survey, while backlogs decreased again in April, but at a slower rate than in January. Contrary to the national trend, new orders from exports rose slightly in April. The rise in new orders from exports in the district reflects the lower dependence of the district manufacturing sector on export demand from Asia compared to the U.S. as a whole. Capital expenditures were up moderately from a year ago, although at a slower pace than in January.

Inventories for finished goods increased modestly in April, at a slightly faster rate than in January, while inventories for raw materials edged up, after being flat in January. Manufacturers held moderately larger inventories for both finished goods and raw materials than they did a year ago.

Employment at district factories expanded again in April, at about the same pace as in January. Job gains in the district again stand in contrast with the nation, which has experienced shrinking manufacturing employment the last three months. Consistent with an overall picture of moderate strength in the sector, the average employee workweek increased modestly after edging down in January. Plant work force levels and the average workweek were both up moderately from a year ago.

Chart 1
Tenth District Manufacturing Production Index

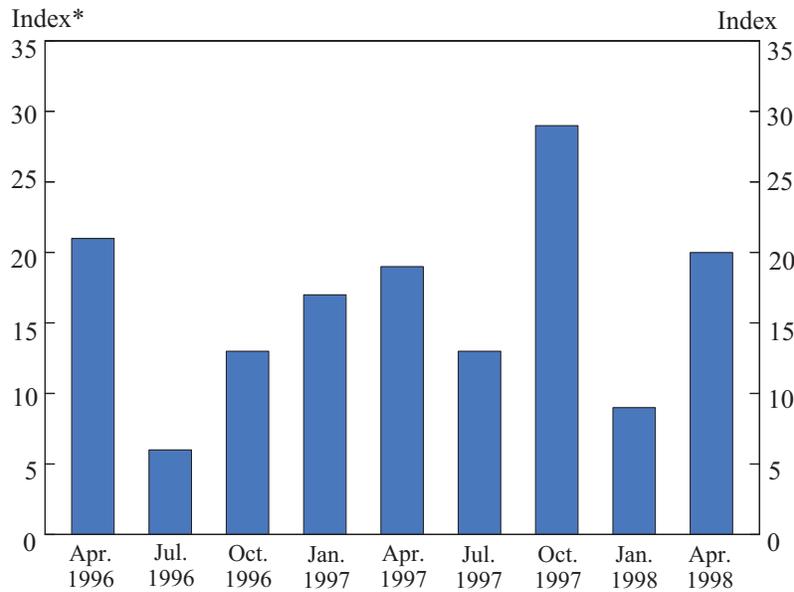


Table 1
Summary of Tenth District Manufacturing Conditions, April 1998

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	39	43	19	20	48	24	28	20	55	34	11	44
Volume of shipments	43	33	24	19	50	21	29	21	55	32	12	43
Volume of new orders	39	38	23	16	48	27	26	22	50	38	12	38
Backlog of orders	24	51	26	-2	33	41	27	6	29	54	17	12
Number of employees	26	57	16	10	36	38	26	10	29	57	14	15
Average employee workweek	24	63	13	11	32	51	17	15	24	63	13	11
Prices received for finished product	9	74	16	-7	37	42	21	16	21	72	7	14
Prices paid for raw materials	15	73	13	2	41	39	21	20	28	67	5	23
Capital expenditures	—	—	—	—	33	42	24	9	33	49	17	16
New orders for exports	16	73	11	5	25	60	15	10	25	68	7	18
Supplier delivery time	6	86	8	-2	13	79	8	5	10	86	3	7
Inventories:												
Materials	30	49	22	8	39	37	24	15	20	52	28	-8
Finished goods	33	48	20	13	40	38	22	18	21	52	27	-6
Industry activity, national level	31	49	20	11	42	29	29	13	47	39	14	33

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

Prices for raw materials were virtually unchanged compared to the last survey, while prices for finished goods edged down again in April. Prices for finished goods and raw materials were both modestly higher than a year ago.

The outlook

In contrast with evidence of a slowdown in the rest of the country, district manufacturers remained optimistic about the near-term outlook, although they appear to be slightly less optimistic than in January. For example, they expect activity to expand in the next six months, although at a slightly slower pace than in January. The indexes of future production and volume of shipments were 44 and 43 in

April, respectively, down from 53 for both indexes in January. Managers also expect factory jobs and the average workweek to increase in coming months, but again at a slower pace than in the last survey. Respondents expect prices of finished goods and raw materials to rise modestly in the next six months, but at a slightly slower pace than they expected in January. District manufacturers remain upbeat about national business conditions, although slightly less so than in the last survey, which is consistent with their overall view of the sector.

Ricardo C. Gazel is an 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 the *Economic Review*.

SURVEY OF TENTH DISTRICT MANUFACTURERS

JANUARY, 1998

Chart 1
Tenth District Manufacturing Production Index

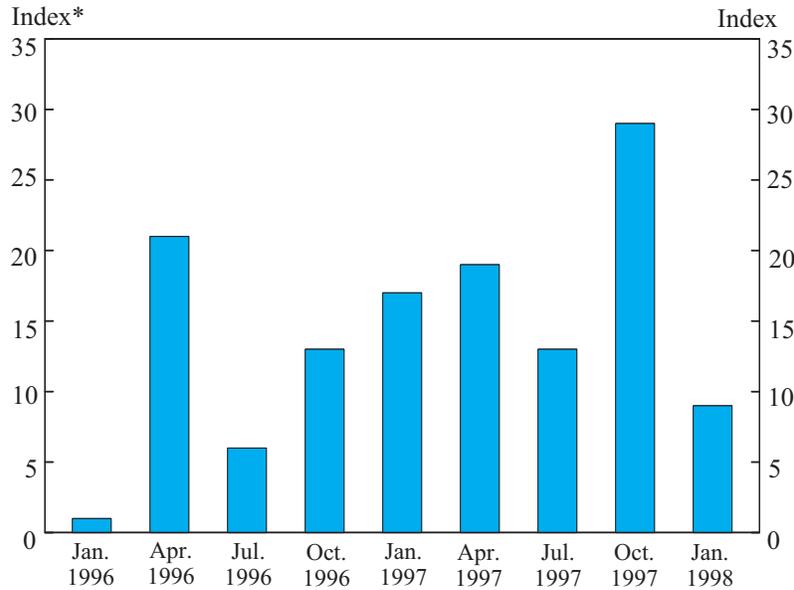


Table 1
Summary of Tenth District Manufacturing Conditions, January 1998

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	36	36	27	9	56	27	16	40	63	27	10	53
Volume of shipments	31	36	33	-2	54	25	20	34	64	25	11	53
Volume of new orders	30	37	33	-3	53	28	19	34	59	31	10	49
Backlog of orders	18	48	34	-16	29	49	22	7	34	51	15	19
Number of employees	23	66	11	12	47	30	23	24	39	53	8	31
Average employee workweek	17	65	18	-1	26	62	12	14	23	67	9	14
Prices received for finished product	9	80	12	-3	38	41	21	17	33	62	5	28
Prices paid for raw materials	15	77	8	7	48	31	21	27	33	61	6	2
Capital expenditures	—	—	—	—	37	43	20	17	46	39	15	31
New orders for exports	8	78	14	-6	27	60	14	13	34	55	11	23
Supplier delivery time	4	89	7	-3	11	78	11	0	10	83	7	3
Inventories:												
Materials	22	58	20	2	39	42	19	20	20	57	23	-3
Finished goods	28	52	20	8	38	40	22	16	26	52	23	3
Industry activity, national level	22	53	25	-3	49	32	19	30	51	36	13	38

* 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.

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