
Survey of Tenth District Manufacturers

By Tim R. Smith

Manufacturing activity in the Kansas City Federal Reserve District slowed somewhat in July from a moderate pace in April, 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). Most measures of manufacturing continue to show expansion, but at a slower pace than in April. Inventories of materials and finished goods were unchanged at district factories. Price increases for raw materials were about the same in July as when the survey was last taken in April. Prices received for 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 only modestly across the district in July after growing somewhat faster in April. The production index fell to 6 in July from 21 in April (Chart 1). Nonetheless, production remained moderately above year-ago-levels.

Most other indicators of current manufacturing activity in the district suggest slower expansion in July. Shipments and new orders continued to increase but at a slower pace than in April. Supplier delivery times and order backlogs both fell slightly in July. Gains in capital expenditures remained modest in July. Export orders increased slightly as they had in the previous survey.

Inventories were flat during July. The indexes for materials and finished goods were close to zero and down slightly from their levels in April. Compared with a year ago, respondents are maintaining slightly larger inventories of finished goods but smaller inventories of materials.

Employment increased modestly at district manufacturing plants in July. Plant workforce levels and the average employee workweek both rose somewhat from a year ago.

Price increases remained more widespread for raw materials than for finished goods in July. Materials prices increased at 25 percent of the plants surveyed, about the same percentage of plants reporting increases in April. 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. Indexes of activity expected in the next six months continue to be solidly positive. For example, the index of future production was unchanged from April, and more than half the respondents expect their production to increase over the next six months. Respondents continue to expect modest gains in district factory jobs in the coming months. And while 40 percent of respondents expect prices of raw materials to rise in the period ahead, far fewer respondents expect higher prices for finished goods. While district manufacturers were somewhat less optimistic about national business conditions in July than in April, their outlook remains positive.

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*.

Chart 1
Tenth District Manufacturing Production Index

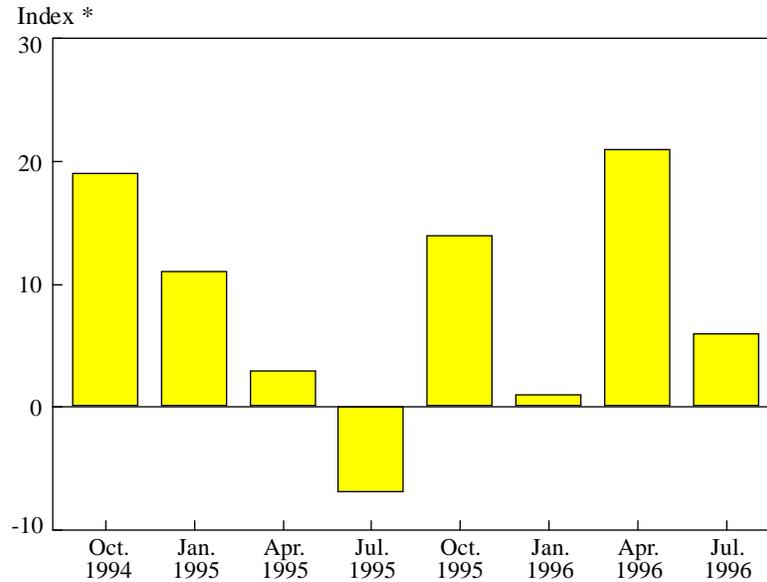


Table 1
Summary of Tenth District Manufacturing Conditions, July 1996

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	34	37	28	6	52	19	28	24	52	30	17	35
Volume of shipments	37	31	32	5	54	18	28	26	52	30	17	35
Volume of new orders	30	40	29	1	43	29	25	18	51	30	16	35
Backlog of orders	22	53	24	-2	30	39	27	3	27	52	18	9
Number of employees	29	55	16	13	43	24	31	12	33	48	18	15
Average employee workweek	18	65	17	1	26	55	18	8	19	66	14	5
Prices received for finished product	13	74	11	2	41	35	21	20	27	58	12	15
Prices paid for raw materials	25	62	12	13	53	21	24	29	40	44	14	26
Capital expenditures	—	—	—	—	38	34	25	13	35	43	19	16
New orders for exports	14	60	10	4	26	47	12	14	27	52	6	21
Supplier delivery time	3	89	5	-2	9	77	10	-1	8	85	5	3
Inventories:												
Materials	25	48	24	1	32	31	36	-4	20	45	33	-13
Finished goods	23	50	23	0	33	33	30	3	20	45	32	-12
Industry activity, national level	23	53	24	-1	42	26	29	13	36	44	17	19

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