News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Kansas City Federal Reserve District contracted marginally in July, 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 slowed substantially from the April survey, and growth rates are well below the peak achieved in October 1997. For the first time since July 1995, the production index posted a negative reading. Some of the slowdown may have been the result of seasonal factors. However, the overall decline in almost all indicators suggests that the recent weakness of manufacturing at the national level has finally arrived in the district. Additionally, the General Motors strike also may have contributed to the slowdown.

Inventories of finished goods declined after rising steadily over the last year. Prices of finished goods declined for the third consecutive quarter, while prices of raw materials edged up. Overall, manufacturing remained stronger than a year ago, performing well above the national average. Although manufacturers expect growth in the next six months, their level of optimism declined from what it was in April.

The July survey included 152 responses from manufacturing plants throughout the seven states of the Tenth District. Survey results will be published in the Third Quarter 1998 issue of the Bank's *Regional Economic Digest*.

A summary of the July survey is attached to this press release. A copy of the previous quarterly survey (April 1998) is also attached.

For more information about the quarterly manufacturing survey, contact Ricardo Gazel, Economic Research Department, (816) 881-2221.

The Third 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**.

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Survey of Tenth District Manufacturers

By Ricardo C. Gazel

Manufacturing activity in the Kansas City Federal Reserve District contracted marginally in July, according to a quarterly survey of manufacturers across the district. This is the first time since July 1995 the production index has posted a negative reading, indicating a contraction in activity. 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 slowed substantially from the April survey, and growth rates are well below the peak reached in October 1997. Some of the slowdown in July may have been the result of seasonal factors. However, the overall decline in almost all indicators suggests that the recent weakness of manufacturing at the national level has finally arrived in the district. Additionally, the G.M. strike also may have contributed to the slowdown. Inventories of finished goods declined after rising steadily over the last year. Prices received for finished goods declined for the third consecutive quarter, likely as a result of strong competition from Asian producers. Prices of raw materials edged up in June, following a pattern of very small changes so far this year. Overall, district manufacturing remained stronger than a year ago, performing well above the national average. Although manufacturers expect positive growth in the next six months, their level of optimism declined from what it was in April.

Indicators of recent activity

Factory production in the district contracted marginally in July, after a moderate expansion in April. The July production index was -4, down substantially from 20 in April (Chart 1). It is important to note that the production index fell from April to July in each of the past four years, suggesting that part of the current decline may reflect seasonal patterns in district manufacturing plants. Moreover, factory production remains higher than a year ago. District manufacturing production also remains above the national average, probably because the Asian crisis has had a smaller impact on district manufacturing than on factory output for the nation as a whole.

Most other indicators of current manufacturing activity in the district suggested a slowdown in July. Both shipments and new orders declined in the current survey following moderate gains in April. Backlogs decreased for the third consecutive quarter, while supplier delivery time was once more virtually unchanged. New orders from exports were flat, a relatively strong performance compared with the large declines registered in surveys at the national level. Again, the data 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, at a marginally faster pace than in April.

Inventories for finished goods were practically unchanged in July, after expanding in the six prior quarters, while inventories for raw materials rose once more and at a pace slightly faster than in April. Manufacturers held moderately larger inventories for both finished goods and raw materials than they did a year ago.

Consistent with the overall slowdown, employment at district factories and the average employee workweek were practically flat in July, after small gains in April. Plant work force levels and the average workweek were both up moderately from a year ago. Despite no recent gains in employment, the district manufacturing sector has shown more strength in the recent past than its national counterpart. For example, district manufacturing employment in June was 1.7 percent higher than a year ago, an impressive rate of growth compared with the 0.7 percent growth for the nation.

Following the same pattern of April, prices for raw materials edged up, while prices for finished goods edged down in July. Prices for finished goods and raw materials were both modestly higher than a year ago.

The outlook

District manufacturers remain optimistic about the near-term outlook, although they have become somewhat less optimistic over the past six months. For example, the index of future production declined from 53 in January to 44 April, and down again to 38 in July. Similarly, the index for future shipments declined from 53 in January, to 43 in April, and to 36 in July. While down from levels earlier this year, all measures still point to continued manufacturing gains in coming months. In keeping with that optimism, managers also expect factory jobs and the average employee workweek to increase in coming months. However, they expect the average employee workweek to grow at a slower pace than in the last survey. Consistent with the overall expectations for the near future, respondents expect prices of finished goods and raw materials to rise modestly in the next six months, but at a slower pace than they expected in April. As with their expectations of local conditions, district manufacturers remain optimistic about industry activity at the national level, although less so than earlier this year.

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*.

Chart 1
Tenth District Manufacturing Production Index

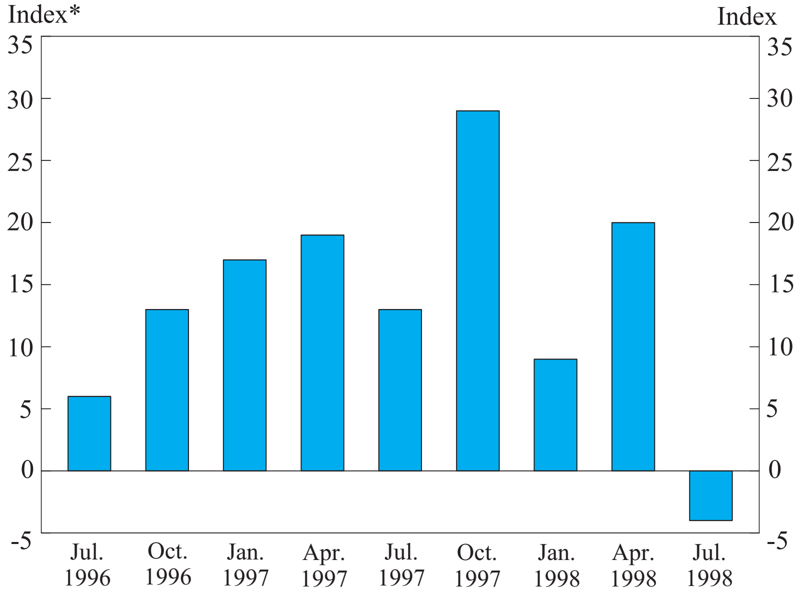

Table 1
Summary of Tenth District Manufacturing Conditions, July 1998

	July vs. June (percent)				July vs. year ago (percent)				Expected in six months (percent)			
Plant level indicators	Increase	No change	Decrease	Index*	Increase	No change	Decrease	Index*	Increase	No change	Decrease	Index*
Production	24	48	28	-4	48	28	24	24	51	37	13	38
Volume of shipments	26	45	29	-3	49	24	26	23	51	34	15	36
Volume of new orders	26	46	28	-2	47	26	27	20	50	32	19	31
Backlog of orders	20	54	26	-6	30	45	25	5	26	55	19	7
Number of employees	24	55	21	3	44	29	27	17	32	54	14	18
Average employee workweek	19	60	21	-2	23	55	22	1	17	70	13	4
Prices received for finished product	7	83	11	-4	34	47	19	15	19	68	13	6
Prices paid for raw materials	15	74	11	4	46	37	17	29	27	66	7	20
Capital expenditures	—	—	—	—	37	37	26	11	30	49	21	9
New orders for exports	12	76	12	0	24	53	23	1	29	56	15	14
Supplier delivery time	6	89	5	1	13	80	7	6	2	93	5	-3
Inventories: Materials	30	53	17	13	41	42	16	25	13	56	31	-18
Finished goods	23	53	24	-1	36	46	17	19	16	52	32	-16
Industry activity, national level	20	53	27	-7	44	24	32	12	45	38	17	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 152 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

SURVEY OF TENTH DISTRICT MANUFACTURERS
APRIL, 1998

Chart 1
Tenth District Manufacturing Production Index

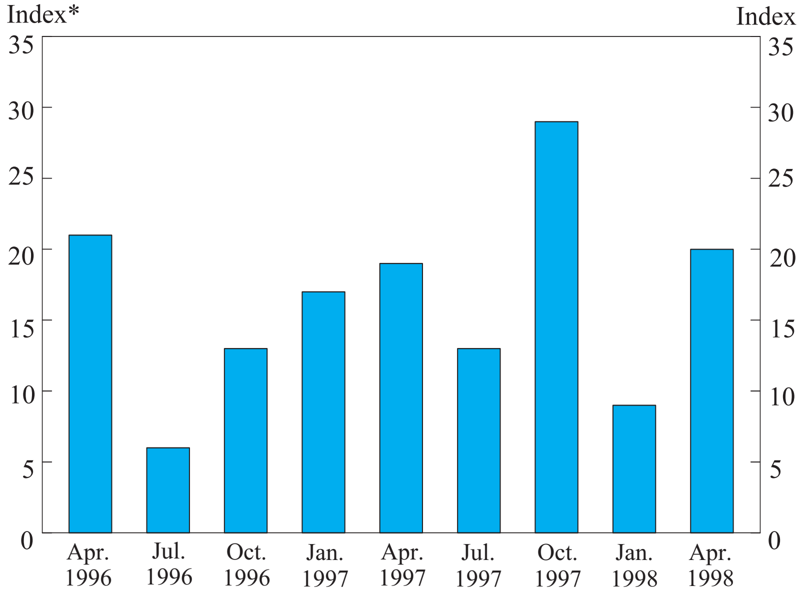

Table 1
Summary of Tenth District Manufacturing Conditions, April 1998

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.