
Survey of Tenth District Manufacturers

By Tim R. Smith

Manufacturing conditions in the Kansas City Federal Reserve District generally improved in October after weakening earlier in the year, 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. Most measures of production show a modest expansion in manufacturing activity during October, although manufacturers trimmed inventories slightly. Prices of raw materials continued to increase moderately, but prices of finished goods were stable. Manufacturing activity generally remains stronger than a year ago, and manufacturers are optimistic about the outlook for the next six months.

Indicators of recent activity

Production expanded moderately across the district in October as the index for production rose to 14 from -7 in July. The recent expansion reverses a mild contraction earlier in the year and puts production ahead of year-ago levels. The moderate expansion in output at district factories also compares favorably with respondents' perceptions of a slight decline in manufacturing activity elsewhere in the nation.

Other indicators of current manufacturing activity in the district also reveal a moderate expansion in October. Indexes for shipments and new orders turned positive in October after registering a contraction in July. Backlogs of orders fell despite the increase in activity at district factories, although supplier delivery time edged up slightly. Stronger foreign demand for district products led to a slight increase in export orders. Overall gains in manufacturing activity led to moderately higher capital spending in October.

Inventories fell slightly during October. The indexes for both materials and finished products show a slight contraction in stocks. Despite the recent contraction, respondents are generally maintaining larger inventories than a year ago.

Employment was steady at district manufacturing plants in October. Comparisons with a year ago show little change in the plants' workforce levels. The average employee workweek was also unchanged.

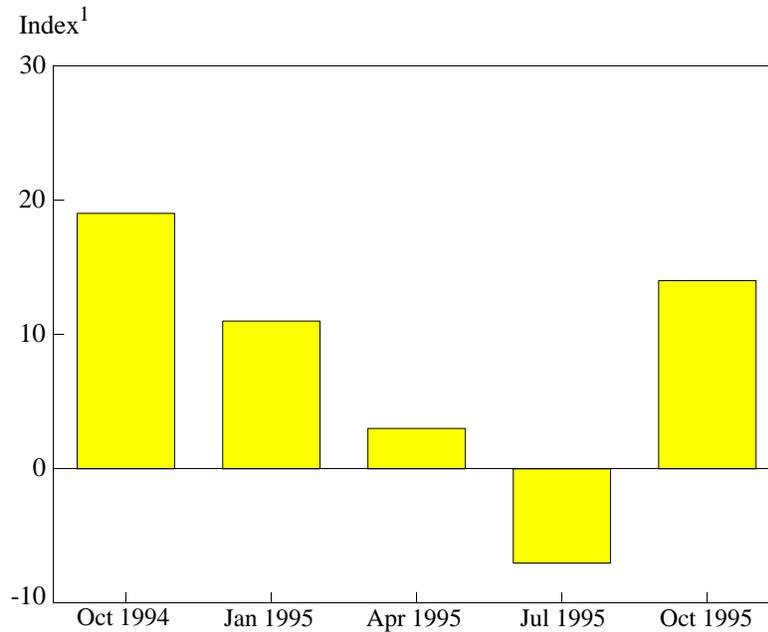
Price increases remained more widespread for raw materials than for finished goods in October. Materials prices increased at about a third of the plants surveyed. While fewer plants report increases in materials prices than in July, price increases were more widespread than a year ago. Final product prices remained stable during the month, but were still 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. The index of future production, for example, rose from its midyear level, and now nearly half of the respondents expect their production to increase over the next six months. Moreover, the outlook for national business conditions and district manufacturing employment has improved considerably since the last survey was taken in July. Survey respondents generally expect price increases to be more widespread for materials than for finished goods in the period ahead.

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, October 1995

Plant level indicators	October vs. September (percent)				October vs. year ago (percent)				Expected in six months (percent)			
	Increase	No change	Decrease	Index ¹	Increase	No change	Decrease	Index ¹	Increase	No change	Decrease	Index ¹
Production	38	37	24	14	48	19	30	18	48	35	15	33
Volume of shipments	39	32	28	11	47	19	32	15	51	32	14	37
Volume of new orders	38	32	29	9	46	22	31	15	47	36	16	31
Backlog of orders	20	47	32	-12	26	36	37	-11	32	47	19	13
Number of employees	20	60	20	0	35	32	32	3	34	55	10	24
Average employee workweek	19	62	19	0	27	52	21	6	20	64	15	5
Prices received for finished product	14	73	11	3	46	36	16	30	38	51	9	29
Prices paid for raw materials	35	54	11	24	75	16	7	68	51	37	10	41
Capital expenditures	—	—	—	—	44	31	25	19	40	45	14	26
New orders for exports	13	68	7	6	25	53	9	16	30	52	4	26
Supplier delivery time	9	83	7	2	16	73	10	6	9	87	4	5
Inventories:												
Materials	21	48	30	-9	37	38	25	12	21	53	26	-5
Plant's finished goods	18	55	24	-6	34	43	20	14	21	55	20	1
Industry activity, national level	22	49	25	-3	41	23	34	7	42	38	16	26

¹ Diffusion index, 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. The closer index values are to 100, the more widespread are increases among respondents. The closer index values are to -100, the more widespread are decreases.

Note: The October survey included 194 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.