
Survey of Tenth District Manufacturers

By Tim R. Smith

Manufacturing activity in the Kansas City Federal Reserve District improved somewhat in October from a sluggish pace in July, 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). By most measures, manufacturing showed a modest expansion during October. The expansion occurred while manufacturers trimmed inventories of materials and finished goods. Raw materials prices rose at about the same number of plants in October as when the survey was last taken in July. Prices received for finished goods remained generally unchanged. Overall, manufacturing activity remained stronger than a year ago, and manufacturers were optimistic about the outlook for the next six months. Manufacturers also reported modest improvement in national business conditions.

Indicators of recent activity

Production grew modestly across the district in October after growing somewhat more slowly in July. The production index rose to 13 in October from 6 in July (Chart 1). Moreover, production remained moderately above year-ago levels.

Most other indicators of current manufacturing activity in the district also suggested expansion in October. Shipments and new orders increased at a significantly faster pace than in July. Supplier delivery times and order backlogs both rose slightly in October after falling slightly in July. Gains in capital expenditures remained modest. As in the previous survey, export orders increased slightly.

Inventories fell somewhat during October as shipments outstripped production. The indexes for inventories of both materials and finished goods were below zero, down slightly from their

July levels. Compared with a year ago, respondents were maintaining slightly larger inventories of finished goods, but their inventories of materials were unchanged.

Employment increased slightly at district factories in October and the average employee workweek was unchanged. Plant workforce levels and the average workweek both rose somewhat from a year ago.

Price increases remained more widespread for raw materials than for finished goods in October. Materials prices increased at 21 percent of the plants surveyed, slightly less than the percentage of plants reporting increases in July. Prices for final products held steady during the month but were up modestly 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 signal expansion ahead. However, the index of future production fell from 35 in July to 27 in October, and now less than half of the respondents expect their production to increase over the next six months. Respondents continue to expect modest gains in factory jobs in the coming months. About a third of respondents expect prices of raw materials and finished goods to rise in the period ahead, but most respondents expect prices to remain unchanged. District manufacturers continued to express optimism about national business conditions.

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 the *Economic Review*.

Chart 1
Tenth District Manufacturing Production Index

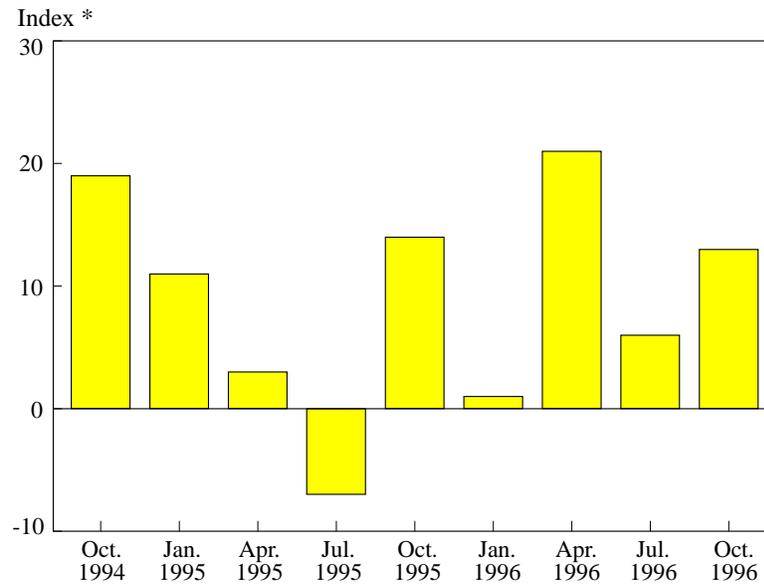


Table 1
Summary of Tenth District Manufacturing Conditions, October 1996

Plant level indicators	October vs. September (percent)				October 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	38	36	25	13	53	18	29	24	45	35	18	27
Volume of shipments	43	35	21	22	57	15	27	30	48	32	19	29
Volume of new orders	40	39	20	20	48	23	26	22	46	34	18	28
Backlog of orders	26	49	21	5	31	39	27	4	26	51	20	6
Number of employees	22	61	17	5	41	27	31	10	28	54	17	11
Average employee workweek	19	60	19	0	27	53	18	9	10	69	19	-9
Prices received for finished product	12	71	16	-4	38	39	22	16	32	56	10	22
Prices paid for raw materials	21	64	14	7	49	24	25	24	30	58	11	19
Capital expenditures	—	—	—	—	40	35	23	17	35	42	21	14
New orders for exports	19	60	9	10	26	48	14	12	26	56	6	20
Supplier delivery time	7	83	8	-1	10	79	9	1	5	89	4	1
Inventories:												
Materials	19	50	31	-12	31	36	32	-1	10	57	32	-22
Finished goods	21	52	24	-3	31	40	27	4	17	53	28	-11
Industry activity, national level	29	53	17	12	45	30	23	22	39	41	18	21

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