



# News Release

## Federal Reserve Bank of Kansas City

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Manufacturing activity in the Kansas City Federal Reserve District was flat in October 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 further from the July survey, indicating that the recent weakness of manufacturing at the national level has finally arrived in the region. Moreover, seasonal factors may have biased the survey numbers in an upward direction, and the slowdown in activity may be even stronger than indicated by the flat index in October. The overall decline in almost all indicators seems to confirm a general weakness in the sector.

Inventories of finished goods increased slightly following a marginal decline in the last survey. Prices received for finished goods declined for the fourth consecutive quarter, likely due to strong competition from Asian producers in domestic and foreign markets. Prices of raw materials also declined in October, probably also a result of the Asian crisis. Overall, manufacturing remained above the national average, but only slightly stronger than a year ago. Although manufacturers expect growth in the next six months, their level of optimism declined from what it was in July.

The October survey included 146 responses from manufacturing plants throughout the seven states of the Tenth District. Survey results will be published in the Fourth Quarter 1998 issue of the Bank's Regional Economic Digest.

A summary of the October survey is attached to this press release. A copy of the previous quarterly survey (July 1998) is also attached. In addition, attached is a memorandum to the media announcing 1999 release dates for the Kansas City Fed's Manufacturing Survey.

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

The Fourth 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

**M**anufacturing activity in the Kansas City Federal Reserve District was flat in October, according to a quarterly survey of manufacturers across the district. The unchanged activity level followed a small decline in July, suggesting that manufacturing activity continues to slow down in 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 slowed further from the July survey, indicating that the recent weakness of manufacturing at the national level has finally arrived in the district. Moreover, seasonal factors may have biased the survey numbers in an upward direction, and the slowdown in activity may be even stronger than indicated by the flat index in October. The overall decline in almost all indicators seems to confirm a general weakness in the sector. Inventories of finished goods increased slightly following a marginal decline in the last survey. Prices received for finished goods declined for the fourth consecutive quarter, likely due to strong competition from Asian producers in domestic and foreign markets. Prices of raw materials also declined in October, probably also a result of the Asian crisis.

Overall, district manufacturing remained above the national average, but only slightly stronger than a year ago. Manufacturers still expect positive growth in the next six months, but their level of optimism declined further from what it was in July and is well below levels registered one year ago.

## *Indicators of recent activity*

Factory production in the district was flat in October, following a marginal contraction in July (Chart 1). Historically, the production index has

always increased from July to October, suggesting that the index could have been even weaker if seasonal factors were taken into account. Factory production remained higher than a year ago, but at a level half of that of July, confirming the general weaker performance in October compared with the previous survey.

Most other indicators of current manufacturing activity in the district pointed to a slowdown in October, despite marginal gains in both shipments and new orders after edging down in July. Backlogs decreased once more, but at a rate almost three times as large as in July. Supplier delivery times declined as well. New orders from exports also declined, suggesting that slower overall economic growth in foreign markets has finally reduced export demand from district plants. Capital expenditures edged down compared with the previous year, following a modest increase in the previous survey.

Inventories for finished goods were up slightly in October, returning to an upward trend after a marginal decline in July. Inventories for raw materials were virtually unchanged in October after growing for six straight quarters. Manufacturers held slightly larger inventories for both finished goods and raw materials than a year ago, but were below levels reported in July.

Confirming the overall slowdown, both employment at district factories and the average employee workweek declined in October following marginal job gains and a marginal decline in the average workweek in July. Compared with one year ago, the plant work force was virtually unchanged while the average workweek was up only marginally. Despite no recent gains in employment, the district manufacturing sector continued to outperform the nation. For example, district manufacturing employment in September was 1.2 percent higher

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than a year ago, well above the flat rate of growth for the nation.

Prices for finished goods declined in October for the fourth consecutive survey, while prices for raw materials declined for the first time since the survey started in October 1994. Prices for finished goods and raw materials were both slightly higher than a year ago.

### *The outlook*

District manufacturers remain cautiously optimistic about the near future, although over the past three quarters they have become increasingly less optimistic. Most indicators of manufacturing's future performance are still positive; however, all point to further slowdown in activity over the next six months. For example, the index of future production declined from 53 in January to 44 April, to 38 in July, and stands now at 15. Similarly, the index for future shipments declined from 53 in January, to 43 in April, to 36 in July, and down

once again to 13 in October. Consistent with this less optimistic view of the future, managers expect factory jobs to remain almost flat and the average employee workweek to shorten in coming months. The index of number of employees declined from 19 in July to 1 in October, while the average employee workweek decreased as well from 4 in July to -12 in October. Moreover, respondents expect prices to reflect the overall slowdown in activity, with only marginal rises in prices for both finished goods and raw materials. District manufacturers remain even less optimistic about industry activity at the national level, as the index declined from 28 in July to 7 in October. In summary, the Asian flu and its overall impact in the U.S. manufacturing sector appear to have finally reached the district.

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Ricardo C. Gazel 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

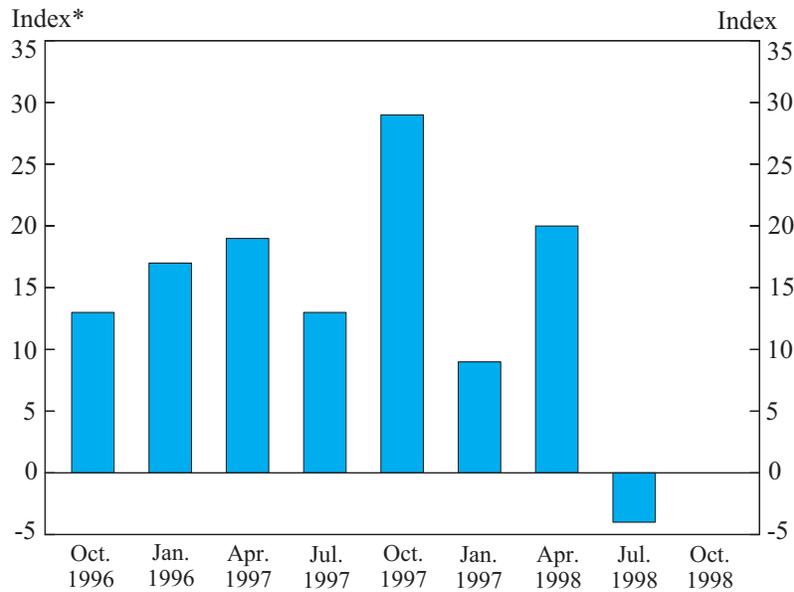


Table 1  
Summary of Tenth District Manufacturing Conditions, October 1998

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	28	44	28	0	45	22	33	12	40	34	26	14
Volume of shipments	35	33	32	3	43	21	36	7	41	31	28	13
Volume of new orders	35	31	34	1	39	25	36	3	42	33	25	17
Backlog of orders	18	47	35	-17	26	38	36	-10	23	52	24	-1
Number of employees	16	59	25	-9	34	33	33	1	23	55	22	1
Average employee workweek	16	61	22	-6	26	51	23	3	11	64	25	-14
Prices received for finished product	4	81	15	-11	26	46	28	-2	21	60	18	3
Prices paid for raw materials	3	73	23	-20	29	33	38	-9	21	62	17	4
Capital expenditures	—	—	—	—	31	37	32	-1	24	50	27	-3
New orders for exports	12	61	27	-15	15	56	29	-14	20	65	15	5
Supplier delivery time	3	89	8	-5	8	84	9	-1	6	86	8	-2
Inventories:												
Materials	22	57	22	0	34	42	25	9	13	48	38	-25
Finished goods	29	48	22	7	32	41	27	5	17	50	32	-15
Industry activity, national level	24	45	32	-8	34	24	41	-7	37	33	31	6

\* 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 146 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

# SURVEY OF TENTH DISTRICT MANUFACTURERS JULY, 1998

Chart 1  
**Tenth District Manufacturing Production Index**

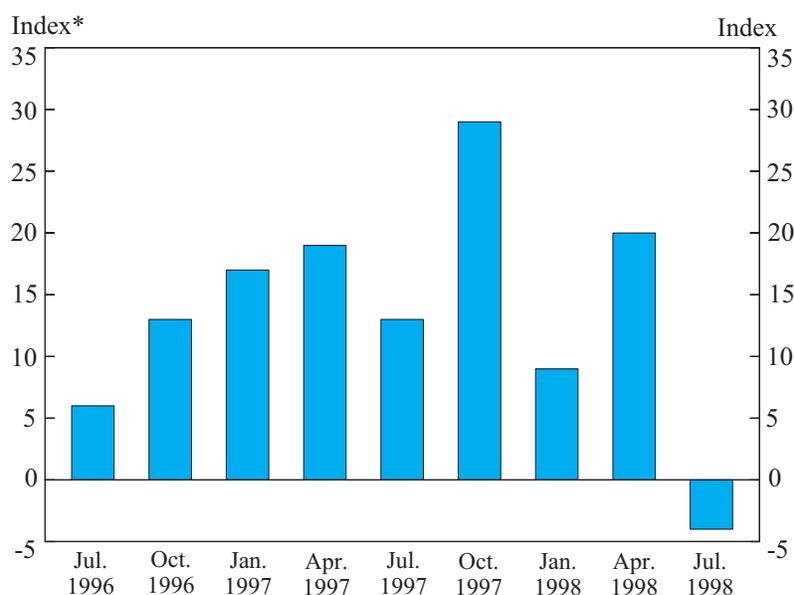


Table 1  
**Summary of Tenth District Manufacturing Conditions, July 1998**

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	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.

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**MEMORANDUM TO THE MEDIA**

**1999 Release Dates for Kansas City Fed's  
Manufacturing Survey**

The Federal Reserve Bank of Kansas City has announced the 1999 release dates for its quarterly survey covering manufacturing activity in the seven states of the Tenth Federal Reserve District. The survey is designed to track the performance of the region's manufacturing sector.

Approximately 275 manufacturing plants that are representative of the district's manufacturing sector make up the survey panel. Survey results are published in each issue of the Bank's *Regional Economic Digest*.

Upcoming survey results will be released to the news media on the following schedule:

- **First Quarter 1999**                      **Wednesday, February 17, 1999**
- **Second Quarter 1999**                      **Wednesday, May 19, 1999**
- **Third Quarter 1999**                      **Wednesday, August 18, 1999**
- **Fourth Quarter 1999**                      **Wednesday, November 17, 1999**

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