



# News Release

## Federal Reserve Bank of Kansas City

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FOR RELEASE Tuesday, October 15, 2002  
EMBARGOED FOR 11:00 A.M. EST

Manufacturing activity in the Tenth Federal Reserve District eased slightly in September. Firms remain cautiously optimistic about production six months down the road, but the future employment index retreated during September after an increase in August.

A summary of the September survey is attached to this press release. The manufacturing survey, which since October 1994 has been performed quarterly via mail, takes a snapshot of factory activity in the region by asking respondents about a variety of manufacturing indicators. Starting with the July 2001 release, information about the Tenth District's manufacturing sector is available monthly.

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The September manufacturing survey, as well as background information and results from past surveys, can be found on the Federal Reserve Bank of Kansas City's web site, <http://www.kc.frb.org>.

# Survey of Tenth District Manufacturers

by Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District eased slightly in September, but expectations for future production remained solid. The year-over-year production index edged down to its lowest level since May, while the year-over-year indexes for new orders and capital expenditures posted more sizable declines. Managers' cautious optimism about future production remained in place, although plans for future capital spending and hiring fell somewhat during the month. The index for production versus a month ago remained slightly positive, but the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons. Until several years of data are available for seasonal adjustment, this report will focus primarily on changes in activity versus a year ago.

The net percentage of firms reporting year-over-year increases in production in September was -13, the lowest reading since May, but down only slightly from the previous three months (Tables 1 & 2). Producers of nondurable goods continued to report higher levels of activity than a year ago, while durable-goods production remained below year-ago levels. Although sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that manufacturing activity was above year-ago levels in Nebraska (the district state most concentrated in nondurable goods production), but weaker than a year ago in the remaining district states.

Most other year-over-year indexes were flat or weaker in September when compared with previous surveys. The indexes for volume of shipments and number of employees were largely unchanged, with both indexes remaining below year-ago levels. The indexes for supplier delivery times as well as for inventories of both raw materials and finished goods also showed little change from past surveys. On the other hand, capital expenditures and the volume of new orders fell markedly after approaching year-ago levels in July and August.

The year-over-year price indexes were almost identical to the previous two surveys, with the gap between the raw materials price index and the finished goods price index continuing to be quite large. The net percentage of firms reporting raw materials price increases from a year ago remained above 30 while the year-over-year finished goods price index was still slightly negative, suggesting firms continue to have difficulties passing cost increases through to customers.

Despite a lack of improvement in the district manufacturing sector in recent months, firms remained cautiously optimistic about production six months down the road. The future production index was 25 in September, virtually the same as in July and August and slightly higher than in May and June. However, expectations for several other important indicators slipped during the month. The expected new orders index declined to 19, its lowest point since last November, while the future capital spending index turned negative for the first time since February. The future employment index also retreated after picking up in August. The future raw materials price index fell back to its lowest level since January and, for the first time in the eight-year history of the survey, more firms expect decreases in finished goods prices over the next six months than expect increases.

Table 1

## Summary of Tenth District Manufacturing Conditions, September 2002

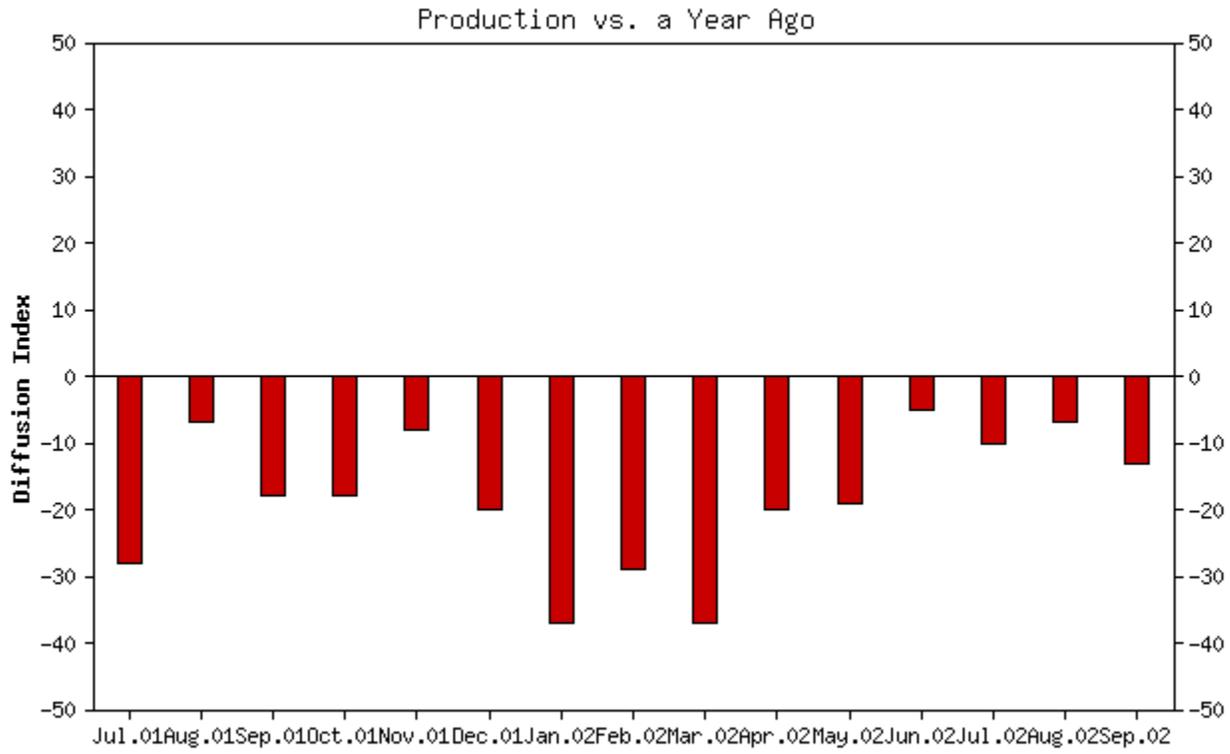
	September vs. August (percent, not seasonally adjusted)				September vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
<b>Plant Level Indicators</b>												
Production	35	31	32	3	30	25	43	-13	44	35	19	25
Volume of shipments	40	30	27	13	35	19	44	-9	42	34	22	20
Volume of new orders	31	39	27	4	29	26	42	-13	39	39	20	19
Backlog of orders	21	42	35	-14	25	35	38	-13	26	51	20	6
Number of employees	18	57	23	-5	19	29	50	-31	26	49	23	3
Average employee workweek	23	55	19	4	14	58	24	-10	20	58	19	1
Prices received for finished product	8	76	13	-5	23	41	31	-8	11	68	18	-7
Prices paid for raw materials	28	58	12	16	50	28	19	31	31	56	11	20
Capital expenditures					18	38	42	-24	23	48	26	-3
New orders for exports	6	75	10	-4	9	63	18	-9	8	74	10	-2
Supplier delivery time	10	79	7	3	13	70	12	1	10	81	5	5
<b>Inventories:</b>												
Materials	18	48	31	-13	29	31	36	-7	23	43	31	-8
Finished goods	25	45	27	-2	30	37	29	1	22	45	30	-8

\* 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 September survey included 97 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

**Table2**  
**Historical Manufacturing Survey Indexes**

	Jul'01	Aug'01	Sep'01	Oct'01	Nov'01	Dec'01	Jan'02	Feb'02	Mar'02	Apr'02	May'02	Jun'02	Jul'02	Aug'02	Sep'02
<b>Versus a Month Ago (not seasonally adjusted)</b>															
<b>Production</b>	-21	22	0	6	-15	-21	6	3	24	18	19	6	8	13	3
<b>Volume of shipments</b>	-28	15	5	-1	-19	-14	-4	-7	33	13	29	9	6	7	13
<b>Volume of new orders</b>	-24	10	-12	-9	-25	-25	11	-3	27	16	22	8	4	14	4
<b>Backlog of orders</b>	-20	-2	-26	-20	-23	-19	0	-8	4	-3	-3	-15	-4	-1	-14
<b>Number of employees</b>	-18	-1	-17	-20	-20	-22	-8	-9	2	1	0	8	-3	-5	-5
<b>Average employee workweek</b>	-12	4	-7	-12	-18	-13	-3	7	6	-2	3	0	0	-1	4
<b>Prices received for finished product</b>	-7	0	-9	-12	-8	-5	-9	-8	0	-3	-8	-11	-6	-9	-5
<b>Prices paid for raw materials</b>	3	-3	-1	3	-3	2	1	8	17	21	19	17	22	17	16
<b>Capital expenditures</b>	n/a														
<b>New orders for exports</b>	8	6	-1	-5	-5	-12	-2	-6	8	6	3	-4	1	-7	-4
<b>Supplier delivery time</b>	1	-3	-8	-9	0	-1	3	5	10	4	5	6	2	6	3
<b>Inventories: Materials</b>	-24	-10	-12	-6	-13	-29	3	-19	-4	-11	4	-13	-1	11	-13
<b>Inventories: Finished goods</b>	-21	-5	-7	-6	-15	-24	0	5	3	0	9	-10	8	4	-2
<b>Versus a Year Ago</b>															
<b>Production</b>	-28	-7	-18	-18	-8	-20	-37	-29	-37	-20	-19	-5	-10	-7	-13
<b>Volume of shipments</b>	-28	-1	-11	-16	-12	-6	-36	-27	-37	-19	-11	-13	-7	-9	-9
<b>Volume of new orders</b>	-28	-12	-13	-21	-21	-20	-30	-29	-36	-12	1	-13	-6	-3	-13
<b>Backlog of orders</b>	-22	-7	-16	-19	-14	-21	-27	-24	-23	-25	-22	-24	-22	-17	-13
<b>Number of employees</b>	-32	-25	-32	-34	-38	-41	-41	-46	-41	-37	-46	-28	-27	-30	-31
<b>Average employee workweek</b>	-32	-5	-25	-27	-29	-24	-20	-29	-22	-34	-20	-18	-13	-15	-10
<b>Prices received for finished product</b>	-5	13	3	-7	-2	5	2	6	-6	-5	-7	-13	-8	-6	-8
<b>Prices paid for raw materials</b>	16	9	12	15	0	0	-2	23	24	18	11	26	32	33	31
<b>Capital expenditures</b>	-11	-22	-25	-31	-25	-24	-21	-36	-39	-30	-28	-21	-7	-7	-24
<b>New orders for exports</b>	1	-2	0	1	-8	-8	-8	-12	-10	-7	-3	-6	-6	-4	-9
<b>Supplier delivery time</b>	1	-2	-1	-6	-16	-1	-7	-2	6	4	3	8	5	3	1
<b>Inventories: Materials</b>	-30	-15	-14	-11	-33	-27	-33	-30	-27	-20	-18	-26	-28	-7	-7
<b>Inventories: Finished goods</b>	-20	-12	0	-15	-27	-27	-34	-17	-15	-13	2	-18	-13	-5	1
<b>Expected in Six Months (not seasonally adjusted)</b>															
<b>Production</b>	12	13	6	4	13	22	33	32	42	36	15	20	24	25	25
<b>Volume of shipments</b>	15	8	4	4	13	29	41	34	45	37	35	24	28	24	20
<b>Volume of new orders</b>	13	15	11	11	8	19	28	37	44	36	38	27	36	27	19
<b>Backlog of orders</b>	-3	3	-15	-2	-9	2	5	18	13	12	32	13	7	11	6
<b>Number of employees</b>	-15	7	-13	-14	-7	-6	-5	15	19	21	8	4	4	12	3
<b>Average employee workweek</b>	-9	6	-6	-6	-9	-1	4	3	18	18	11	5	-1	4	1
<b>Prices received for finished product</b>	10	10	4	2	13	13	0	6	12	18	12	0	4	4	-7
<b>Prices paid for raw materials</b>	22	6	11	5	14	21	13	25	30	38	30	27	34	36	20
<b>Capital expenditures</b>	0	-16	-19	-18	-23	-14	-9	-7	0	5	12	12	8	8	-3
<b>New orders for exports</b>	12	7	-3	3	-1	0	1	3	13	6	12	8	9	5	-2
<b>Supplier delivery time</b>	-5	-3	-2	4	-4	3	3	5	4	11	8	9	10	10	5
<b>Inventories: Materials</b>	-28	-16	-20	-27	-29	-7	-16	-3	4	-2	0	-1	-6	-3	-8
<b>Inventories: Finished goods</b>	-24	-11	-24	-29	-22	-15	-21	3	7	0	11	-2	4	7	-8



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