



# News Release

## Federal Reserve Bank of Kansas City

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FOR RELEASE Monday, April 14, 2003  
EMBARGOED FOR 11:00 A.M. EST

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Manufacturing activity in the Tenth Federal Reserve District appeared to weaken somewhat in March. However, despite some weakening in production, shipments, and new orders, firms remained optimistic about factory activity later in the year.

A summary of the March survey is attached to this press release.

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The March 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 appeared to weaken somewhat in March, but firms remained optimistic about future activity. Production and shipments fell back below year-ago levels following two months of modest gains, and factories continued to shed employees. Still, expectations for future production and hiring were as positive as in recent months. Production versus a month ago rose moderately, but the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons. Production increased sharply in March 2002, suggesting that some of the increase this March was due to seasonal factors. 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 fell to -4 in March, down from 12 in February and 6 in January (Tables 1 & 2). Several firms attributed the pullback in activity to the onset of war in Iraq, although most firms said the war has had little impact on their business. Activity remained slightly above year-ago levels at durable goods-producing plants in the district but was considerably weaker than a year ago at nondurable goods-producing factories. Although sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production was furthest below year-ago levels in Kansas and western Missouri.

Like production, several other year-over-year indexes of factory activity worsened in March. The indexes for shipments and backlog of orders both fell back below zero and the new orders index was much less positive than in February. Other indexes showed little or no improvement from previous months. The employment index rose slightly but remained well below zero. Likewise, the capital spending index edged up but was still quite negative.

The year-over-year inventory indexes both rose to near year-ago levels in March. After dropping in February, the index for inventories of finished goods increased somewhat as customers appeared to delay their purchases. Meanwhile, the index for inventories of raw materials improved for the first time in five months.

The gap between changes in input prices and changes in output prices remained quite wide in March. The year-over-year index for raw materials prices edged down from February's two-year peak but remained high. Meanwhile, the year-over-year index for finished goods prices was negative for the thirteenth straight month, as firms have been largely unable to pass recent cost increases through to customers.

Despite some weakening in production, shipments, and new orders in March, firms remained as optimistic about factory activity later in the year as in recent surveys. The future production index was 34, following readings in the 30s since last October. Likewise, the future shipments, new orders, and employment indexes were at or near six-month highs. On a somewhat less positive note, the future capital spending index fell back close to zero after edging up in February. In addition, the future index for prices paid for raw materials remained relatively high while the future finished goods price index fell below zero following positive readings in January and February.

Table1

## Summary of Tenth District Manufacturing Conditions, March 2003

Plant Level Indicators	March vs. February (percent, not seasonally adjusted)				March 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*
Production	36	35	25	11	34	25	38	-4	53	23	20	33
Volume of shipments	40	35	21	19	34	22	40	-6	60	16	20	40
Volume of new orders	41	34	20	21	36	26	32	4	52	28	15	37
Backlog of orders	28	41	26	2	29	29	35	-6	35	40	19	16
Number of employees	10	59	27	-17	21	32	42	-21	32	47	17	15
Average employee workweek	14	69	13	1	19	51	26	-7	27	53	14	13
Prices received for finished product	4	79	13	-9	23	40	30	-7	14	65	17	-3
Prices paid for raw materials	25	66	5	20	46	33	16	30	28	60	8	20
Capital expenditures					19	50	27	-8	22	54	19	3
New orders for exports	13	67	8	5	10	64	11	-1	13	65	9	4
Supplier delivery time	5	88	2	3	5	80	9	-4	8	85	2	6
Inventories:												
Materials	25	52	19	6	28	38	29	-1	22	45	28	-6
Finished goods	23	52	20	3	26	42	27	-1	22	46	26	-4

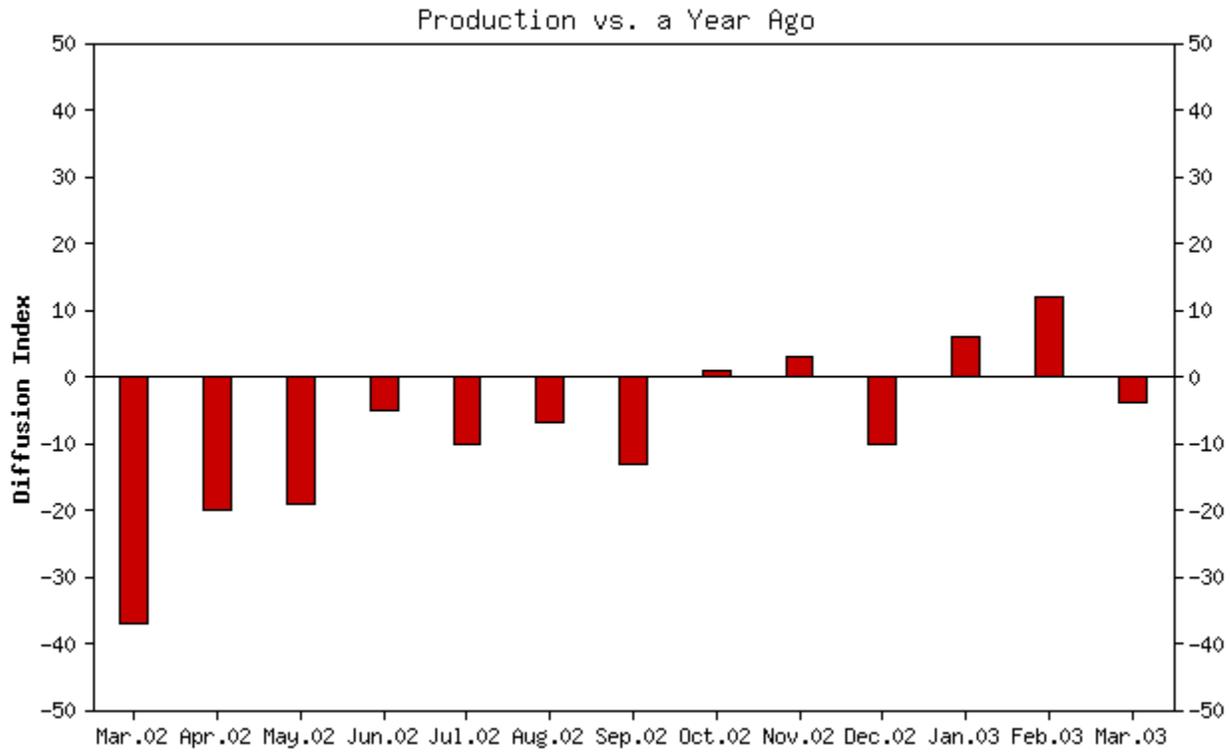
\* The diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicator from the percentage of those reporting increases. Index values greater than zero generally suggest expansion, while values less than zero indicate contraction. When index values are closer to 100, the increases among respondents are more widespread. When index values are closer to -100, decreases are more widespread.

Note: The March survey included 84 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2

## Historical Manufacturing Survey Indexes

	Mar'02	Apr'02	May'02	Jun'02	Jul'02	Aug'02	Sep'02	Oct'02	Nov'02	Dec'02	Jan'03	Feb'03	Mar'03
<b>Versus a Month Ago (not seasonally adjusted)</b>													
Production	24	18	19	6	8	13	3	13	-2	-20	14	8	11
Volume of shipments	33	13	29	9	6	7	13	5	1	-12	11	1	19
Volume of new orders	27	16	22	8	4	14	4	13	2	-16	11	16	21
Backlog of orders	4	-3	-3	-15	-4	-1	-14	-3	-4	-26	-8	-1	2
Number of employees	2	1	0	8	-3	-5	-5	-9	-10	-18	-11	-5	-17
Average employee workweek	6	-2	3	0	0	-1	4	4	-3	-19	4	12	1
Prices received for finished product	0	-3	-8	-11	-6	-9	-5	-12	-10	-9	0	-2	-9
Prices paid for raw materials	17	21	19	17	22	17	16	9	9	11	12	21	20
Capital expenditures	n/a												
New orders for exports	8	6	3	-4	1	-7	-4	1	-5	-3	1	-6	5
Supplier delivery time	10	4	5	6	2	6	3	-1	-3	2	2	-3	3
Inventories: Materials	-4	-11	4	-13	-1	11	-13	-12	0	-17	-1	-10	6
Inventories: Finished goods	3	0	9	-10	8	4	-2	-2	-1	-18	-8	-4	3
<b>Versus a Year Ago</b>													
Production	-37	-20	-19	-5	-10	-7	-13	1	3	-10	6	12	-4
Volume of shipments	-37	-19	-11	-13	-7	-9	-9	0	9	-12	5	11	-6
Volume of new orders	-36	-12	1	-13	-6	-3	-13	6	9	-6	4	24	4
Backlog of orders	-23	-25	-22	-24	-22	-17	-13	-8	-5	-13	0	11	-6
Number of employees	-41	-37	-46	-28	-27	-30	-31	-29	-13	-37	-27	-32	-21
Average employee workweek	-22	-34	-20	-18	-13	-15	-10	-6	-5	-15	-2	1	-7
Prices received for finished product	-6	-5	-7	-13	-8	-6	-8	-22	-12	-8	-11	-3	-7
Prices paid for raw materials	24	18	11	26	32	33	31	36	27	33	23	39	30
Capital expenditures	-39	-30	-28	-21	-7	-7	-24	-12	0	-9	-15	-15	-8
New orders for exports	-10	-7	-3	-6	-6	-4	-9	1	0	-1	2	-3	-1
Supplier delivery time	6	4	3	8	5	3	1	-1	-4	0	-4	-11	-4
Inventories: Materials	-27	-20	-18	-26	-28	-7	-7	9	-4	-13	-15	-16	-1
Inventories: Finished goods	-15	-13	2	-18	-13	-5	1	9	-2	-1	0	-10	-1
<b>Expected in Six Months (not seasonally adjusted)</b>													
Production	42	36	15	20	24	25	25	34	35	32	38	33	33
Volume of shipments	45	37	35	24	28	24	20	35	39	31	44	32	40
Volume of new orders	44	36	38	27	36	27	19	36	34	30	35	38	37
Backlog of orders	13	12	32	13	7	11	6	10	19	15	16	22	16
Number of employees	19	21	8	4	4	12	3	11	15	8	14	17	15
Average employee workweek	18	18	11	5	-1	4	1	8	12	8	20	10	13
Prices received for finished product	12	18	12	0	4	4	-7	-12	3	-5	4	11	-3
Prices paid for raw materials	30	38	30	27	34	36	20	15	19	25	24	25	20
Capital expenditures	0	5	12	12	8	8	-3	4	8	1	2	9	3
New orders for exports	13	6	12	8	9	5	-2	4	-1	-4	10	5	4
Supplier delivery time	4	11	8	9	10	10	5	-4	-2	-2	-1	9	6
Inventories: Materials	4	-2	0	-1	-6	-3	-8	-3	-11	-16	-14	-9	-6
Inventories: Finished goods	7	0	11	-2	4	7	-8	0	-14	-16	-5	-9	-4



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