



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Tenth Federal Reserve District improved in January as production rose above year-ago levels. Although several indicators hint at some apprehension about the coming months, manufacturer's optimism about activity six months in the future remains very high.

A summary of the January 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 January 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 improved in January, as production rose back above year-ago levels after weakening in December. In addition, firms' expectations about production levels later in the year increased, although their plans for future capital spending remained rather cautious. Production versus a month ago also rose after falling sharply in December, 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 rose to 6 in January after dropping to -10 in December (Tables 1 & 2). It appears most of the improvement during the month occurred at durable goods-producing plants. Although sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that manufacturing was above year-ago levels in Nebraska and Oklahoma but still weak elsewhere.

Like production, most other year-over-year indexes of factory activity improved in January. The volume of shipments and volume of new orders at district firms rose back above year-ago levels and the index for backlog of orders reached zero after being negative for nearly three years. The employment index rose but remained highly negative. Meanwhile, the index for average employee workweek jumped nearly to zero, suggesting the pick-up in production during the month at many firms was partly a result of current workers logging longer hours. An exception to the overall improvement was the index for capital spending, which fell for the second straight month, perhaps reflecting some apprehension among firms about the outlook for the very short-term.

The year-over-year inventory indexes were nearly identical to their December readings. The index for inventories of raw materials was still quite negative, again possibly suggesting uncertainty about the near-term outlook. Meanwhile, inventories of finished goods remained basically at year-ago levels for the second straight month.

As for prices, upward pressures on raw materials prices appeared to ease somewhat, while finished goods prices remained well below year-ago levels. The year-over-year index for raw materials prices fell to 23, the lowest reading since last spring. At the same time, however, the year-over-year index for prices received for finished goods remained as negative as in previous months, suggesting that firms continue to have difficulties passing cost increases through to customers.

Although several indicators of factory activity hint at some apprehension among firms about coming months, optimism about activity six months down the road remains very high. The future production index rose to 38, up slightly from the fourth quarter and up considerably from last summer. Expectations for future shipments and new orders were also around their highest levels in a year. The future employment index bounced back after easing in December and the index for future employee workweek reached its highest level in three years. Firms were also clearly more optimistic about the outlook for export orders than at any time in the last six months. The future capital spending index failed to show much improvement in January, but remained slightly positive. Firms continue to expect sizable increases in raw materials prices over the next six months while finished goods prices are expected to rise only slightly.

Table 1

Summary of Tenth District Manufacturing Conditions, January 2003

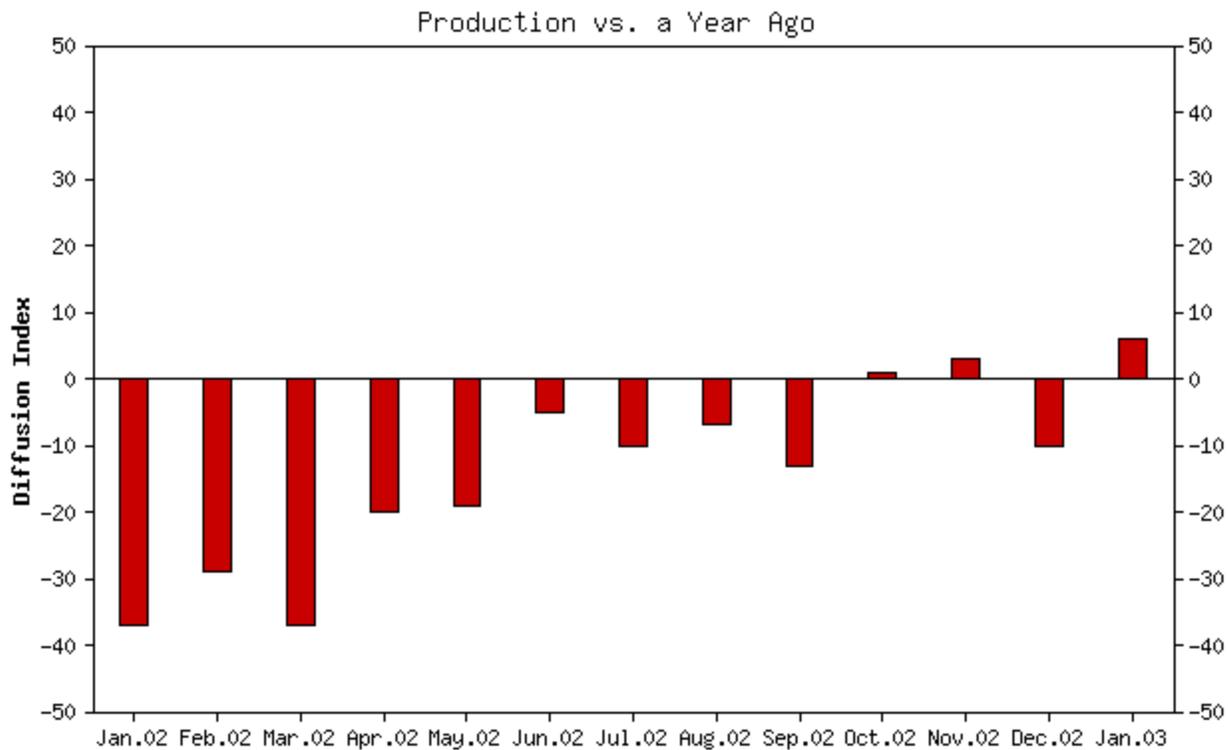
	January vs. December (percent, not seasonally adjusted)				January vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index [*]	Increase	No Change	Decrease	Index [*]	Increase	No Change	Decrease	Index [*]
Plant Level Indicators												
Production	38	36	24	14	36	32	30	6	54	27	16	38
Volume of shipments	37	33	26	11	36	30	31	5	59	22	15	44
Volume of new orders	37	32	26	11	36	27	32	4	51	29	16	35
Backlog of orders	25	38	33	-8	29	39	29	0	38	37	22	16
Number of employees	11	65	22	-11	20	30	47	-27	30	52	16	14
Average employee workweek	19	61	15	4	22	50	24	-2	31	53	11	20
Prices received for finished product	9	79	9	0	23	38	34	-11	22	56	18	4
Prices paid for raw materials	20	69	8	12	39	43	16	23	32	58	8	24
Capital expenditures					18	45	33	-15	20	58	18	2
New orders for exports	11	70	10	1	13	66	11	2	18	63	8	10
Supplier delivery time	6	84	4	2	8	76	12	-4	5	83	6	-1
Inventories:												
Materials	18	59	19	-1	24	33	39	-15	18	45	32	-14
Finished goods	16	55	24	-8	30	37	30	0	22	47	27	-5

^{*} 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 January survey included 86 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

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



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