



# News Release

## Federal Reserve Bank of Kansas City

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FOR RELEASE Monday, February 9, 2004  
EMBARGOED FOR 11:00 A.M. EST

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Manufacturing activity in the Great Plains and Rocky Mountain region encompassed by Tenth Federal Reserve District continued to expand during January. Expectations for future factory activity eased somewhat from record levels posted during the fourth quarter of 2003, but firms were still generally as optimistic as they were last summer.

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

The Tenth Federal Reserve District encompasses Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri.

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 continued to expand in January. The year-over-year production index fell somewhat from the five-year high reached in December and the year-over-year new orders index also eased moderately, but both indexes remained quite positive and well above levels posted in recent years. The six-month-ahead indexes for production and new orders also fell back somewhat, although the indexes were still just as high as they were last summer. The month-over-month production index rebounded solidly after dropping nearly to zero 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 fell to 24 in January, down from readings in the low- to mid-30s during the fourth quarter of 2003 (Tables 1 & 2). Nevertheless, prior to October 2003, the last time a reading of higher than 24 was posted was in mid-1998. Year-over-year growth eased moderately at both durable- and nondurable-goods-producing firms, but durable producers continued to report solid year-over-year gains and nondurable producers also indicated production was slightly higher than a year ago. While sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production eased back below year-ago levels in Colorado and western Missouri but remained at or above year-ago levels in the rest of the district.

Like the production index, most other year-over-year indexes of factory activity fell somewhat in January but remained considerably higher than in recent years. The shipments index edged down from 29 to 27, and the new orders index dipped from 45 to 30. Likewise, the employment index fell back below zero in January after posting a positive reading in December for the first time in nearly four years. The capital expenditures index was basically unchanged from December, while the new orders for exports index continued to edge higher following the recent fall in the value of the dollar. The inventory indexes—after rising above zero in December for the first time in over a year—both fell back into negative territory in January. These low inventory levels should continue to provide a boost to production in coming months, as firms seek to replenish stocks after catching up with their strong sales growth during the second half of 2003.

There are tentative signs that greater demand for manufacturing goods in recent months may be allowing firms to pass some of their cost increases through to customers. The year-over-year finished goods price index rose to 8 in January, which, while still modest, was its highest reading since mid-2001. Meanwhile, the year-over-year raw materials index remained very high, at 48, as some firms reported modest increases in import prices and others reported continued increases in the price of steel.

Expectations for future factory activity in the Tenth District eased somewhat from the record levels posted during the fourth quarter of 2003, but firms were still generally as optimistic as they were last summer. The future production index fell from 49 to 33, and the future new orders index eased from 45 to 38. Despite the recent strong increase in demand for their products, firms continue to plan only moderate increases in hiring and investment heading forward. The future employment index edged down to 12 in January, and the future capital expenditures index was unchanged at 16. As for prices, firms continue to expect rising materials prices and a greater ability to pass cost increases through to customers. The future raw materials price index rose from 35 to 42. Meanwhile the future finished goods price index remained in the mid-teens, similar to November and December and up moderately from readings during much of the past four years.

Table 1

## Summary of Tenth District Manufacturing Conditions, January 2004

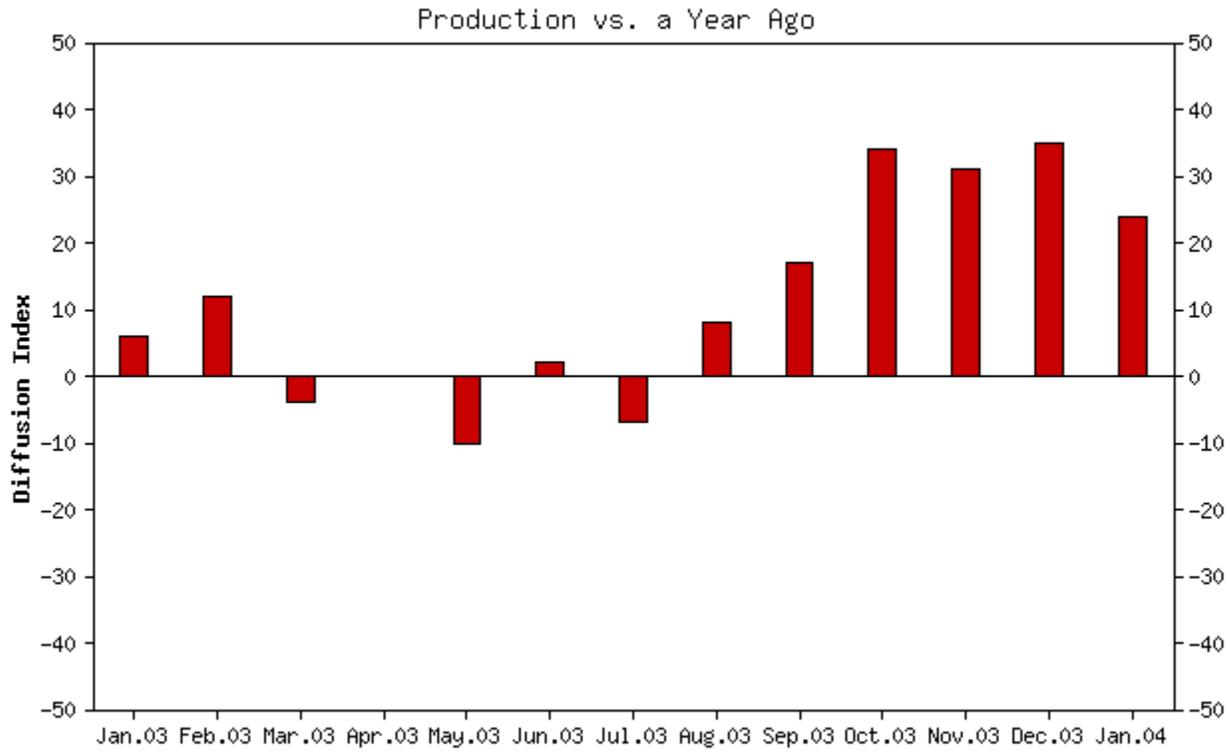
	January vs. December (percent, not seasonally adjusted)				January vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
<b>Plant Level Indicators</b>												
Production	40	36	23	17	52	18	28	24	51	29	18	33
Volume of shipments	40	29	28	12	53	18	26	27	56	25	17	39
Volume of new orders	47	24	26	21	55	16	25	30	54	26	16	38
Backlog of orders	31	40	24	7	42	31	20	22	41	38	16	25
Number of employees	21	64	12	9	30	34	32	-2	29	51	17	12
Average employee workweek	27	53	18	9	38	43	18	20	27	53	18	9
Prices received for finished product	17	74	8	9	30	47	22	8	26	61	11	15
Prices paid for raw materials	42	52	3	39	56	32	8	48	49	42	7	42
Capital expenditures					22	55	16	6	28	54	12	16
New orders for exports	14	71	5	9	14	69	6	8	21	65	4	17
Supplier delivery time	11	79	7	4	17	69	11	6	9	81	6	3
<b>Inventories:</b>												
Materials	28	50	19	9	28	36	33	-5	22	46	31	-9
Finished goods	18	56	24	-6	23	44	30	-7	18	50	30	-12

\* 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 104 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

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

	Jan'03	Feb'03	Mar'03	Apr'03	May'03	Jun'03	Jul'03	Aug'03	Sep'03	Oct'03	Nov'03	Dec'03	Jan'04
<b>Versus a Month Ago</b> (not seasonally adjusted)													
Production	14	8	11	15	1	15	8	20	31	28	6	1	17
Volume of shipments	11	1	19	19	6	22	7	16	30	21	-1	17	12
Volume of new orders	11	16	21	16	7	15	24	22	31	29	14	19	21
Backlog of orders	-8	-1	2	-2	0	-1	5	17	2	5	8	1	7
Number of employees	-11	-5	-17	-10	-1	-2	3	9	11	4	8	12	9
Average employee workweek	4	12	1	-1	-4	-2	4	18	25	5	8	-4	9
Prices received for finished product	0	-2	-9	-7	-7	-3	-5	-4	-1	-5	-2	3	9
Prices paid for raw materials	12	21	20	9	7	12	8	18	16	17	27	23	39
Capital expenditures	n/a												
New orders for exports	1	-6	5	-8	2	4	6	7	2	5	-1	7	9
Supplier delivery time	2	-3	3	1	0	-2	0	-1	5	4	8	10	4
Inventories: Materials	-1	-10	6	-7	-25	-18	-6	-14	-4	5	4	-4	9
Inventories: Finished goods	-8	-4	3	-8	0	-10	-12	-11	-8	1	2	-3	-6
<b>Versus a Year Ago</b>													
Production	6	12	-4	0	-10	2	-7	8	17	34	31	35	24
Volume of shipments	5	11	-6	9	-10	1	6	11	20	36	29	29	27
Volume of new orders	4	24	4	7	-2	6	16	22	31	40	41	45	30
Backlog of orders	0	11	-6	-7	-13	-10	-3	3	12	10	21	28	22
Number of employees	-27	-32	-21	-29	-33	-30	-17	-8	-13	-8	0	3	-2
Average employee workweek	-2	1	-7	-20	-13	-11	-1	9	17	17	18	21	20
Prices received for finished product	-11	-3	-7	-2	-7	-4	-5	1	-1	-1	4	2	8
Prices paid for raw materials	23	39	30	28	32	31	31	37	30	39	40	49	48
Capital expenditures	-15	-15	-8	-1	-4	-12	-3	0	12	3	14	7	6
New orders for exports	2	-3	-1	-11	0	-5	-5	11	0	5	3	5	8
Supplier delivery time	-4	-11	-4	-2	-1	-5	-3	-4	3	-4	8	5	6
Inventories: Materials	-15	-16	-1	-6	-26	-17	-14	-11	-7	-5	-8	9	-5
Inventories: Finished goods	0	-10	-1	-4	-9	-5	-5	-12	-5	-7	-4	12	-7
<b>Expected in Six Months</b> (not seasonally adjusted)													
Production	38	33	33	36	37	32	35	37	36	55	45	49	33
Volume of shipments	44	32	40	38	35	28	28	38	38	49	50	45	39
Volume of new orders	35	38	37	36	36	36	21	40	40	50	45	45	38
Backlog of orders	16	22	16	19	23	23	24	18	22	26	12	25	25
Number of employees	14	17	15	5	9	7	5	23	13	15	24	17	12
Average employee workweek	20	10	13	7	20	8	8	11	13	15	8	19	9
Prices received for finished product	4	11	-3	7	11	5	3	10	10	9	14	17	15
Prices paid for raw materials	24	25	20	22	25	27	17	32	29	27	40	35	42
Capital expenditures	2	9	3	13	13	16	12	15	15	16	19	16	16
New orders for exports	10	5	4	-2	9	6	5	14	13	11	10	14	17
Supplier delivery time	-1	9	6	7	12	-3	5	2	8	1	6	2	3
Inventories: Materials	-14	-9	-6	0	-12	-14	-8	0	4	4	-1	4	-9
Inventories: Finished goods	-5	-9	-4	5	-11	-9	0	3	-6	6	3	3	-12



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