



News Release

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Manufacturing activity in the Great Plains and Rocky Mountain region encompassed by Tenth Federal Reserve District continued to grow strongly during February, while optimism about future activity improved despite increasing concerns over rising input costs

A summary of the February 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 February 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 grow strongly in February. The year-over-year production and new orders indexes edged higher, and the year-over-year employment index rose solidly into positive territory for the first time in four years. In addition, firms' optimism about future activity improved despite increasing concerns over rising input costs. While the month-over-month production index edged down slightly, 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 27 in February, up slightly from 24 in January but down slightly from the six-year highs posted during the fourth quarter of 2003 (Tables 1 & 2). Year-over-year growth in production edged higher at both durable- and nondurable-goods-producing firms, with durable producers continuing to report very solid year-over-year gains and nondurable producers reporting somewhat more modest gains. While sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production was above year-ago levels in all district states but Colorado.

Like the production index, most other year-over-year indexes of factory activity either rose slightly in February or remained at January's solid levels. Perhaps most notably, the employment index jumped to 12, its highest reading since mid-1998 and first reading above 5 since early 2000. In addition, the shipments and new orders indexes each rose moderately. The inventory indexes—for both raw materials and finished goods—rose back above zero after dropping in January. The backlog and capital expenditures indexes also posted modest gains, while the workweek, exports, and supplier delivery time indexes were largely unchanged from recent months.

Price indexes for both raw materials and finished goods continued to edge upward. The year-over-year raw materials price index increased slightly to 50, matching a four-year high. Many firms reported continued increases in the price of steel in particular, but also in the costs of most energy-based products and numerous other materials. Meanwhile, the year-over-year finished goods price index also continued to edge higher, suggesting firms were having slightly more success raising their selling prices. After rising to 8 in January, the finished goods price index increased to 11 in February, the highest reading since August 2001.

Expectations for future factory activity rebounded somewhat in February, and firms showed somewhat more confidence in their ability to pass cost increases onto their customers. The future production index rose back to 43 in February, after dropping to 33 in January from record highs in the fourth quarter of 2003. The future new orders and shipments indexes also rose slightly after falling in January, and the future capital expenditures index increased to 23, its highest reading since early 1998. In contrast to the rebound in optimism regarding future production and investment, the future employment index was largely unchanged in February and, at 13, remained lower than during several periods over the past few years. 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 42 to 48, as firms anticipate further increases in the price of steel and other materials. Meanwhile, the future finished goods price index rose by a larger amount, from 15 in January to 25 in February, matching its highest reading since 1995 and suggesting that firms expect some pricing power to return in coming months.

Table 1

Summary of Tenth District Manufacturing Conditions, February 2004

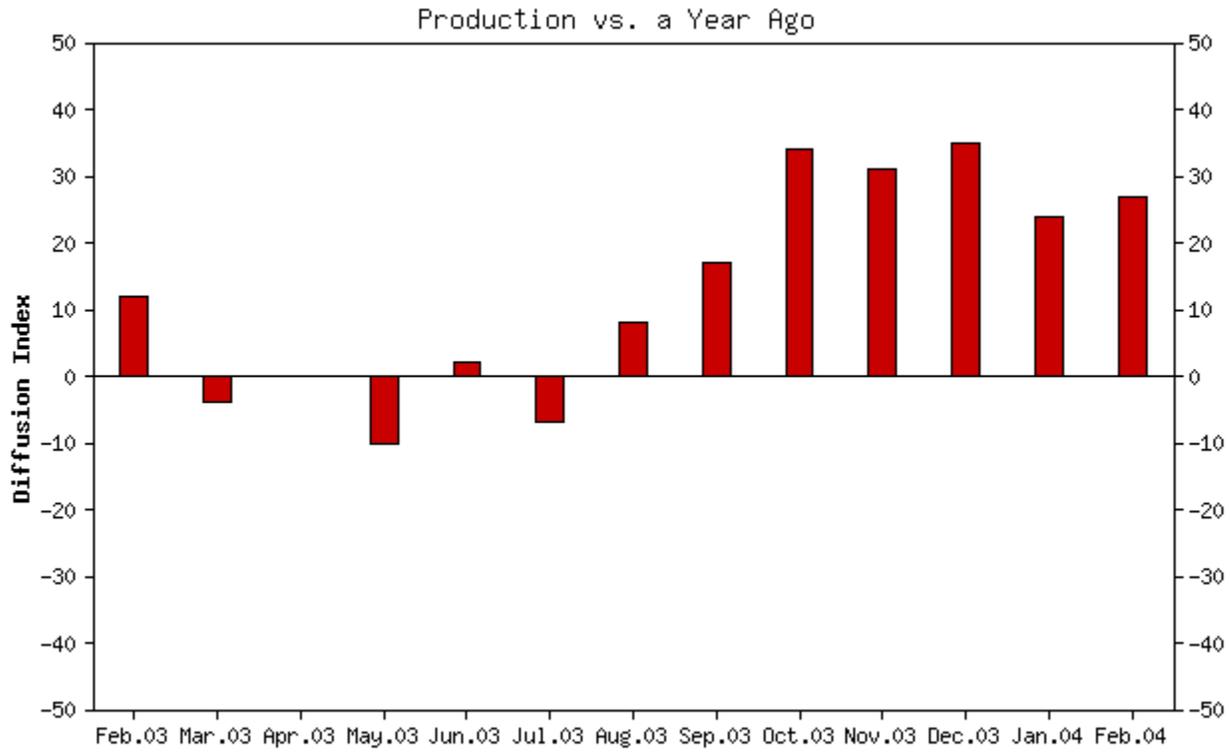
	February vs. January (percent, not seasonally adjusted)				February vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
Plant Level Indicators												
Production	39	35	25	14	51	23	24	27	58	25	15	43
Volume of shipments	43	31	24	19	54	21	22	32	56	28	14	42
Volume of new orders	31	40	26	5	55	24	17	38	55	25	16	39
Backlog of orders	25	47	23	2	40	39	15	25	38	42	15	23
Number of employees	23	58	16	7	40	29	28	12	30	51	17	13
Average employee workweek	26	52	20	6	39	40	20	19	29	50	19	10
Prices received for finished product	15	74	10	5	32	45	21	11	35	53	10	25
Prices paid for raw materials	43	51	5	38	60	27	10	50	57	32	9	48
Capital expenditures					27	53	18	9	35	52	12	23
New orders for exports	8	74	8	0	18	62	11	7	22	64	5	17
Supplier delivery time	12	80	6	6	15	73	8	7	13	77	8	5
Inventories:												
Materials	30	49	19	11	29	43	26	3	23	46	29	-6
Finished goods	25	50	22	3	27	47	23	4	23	49	25	-2

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

Table2
Historical Manufacturing Survey Indexes

	Feb'03	Mar'03	Apr'03	May'03	Jun'03	Jul'03	Aug'03	Sep'03	Oct'03	Nov'03	Dec'03	Jan'04	Feb'04
Versus a Month Ago (not seasonally adjusted)													
Production	8	11	15	1	15	8	20	31	28	6	1	17	14
Volume of shipments	1	19	19	6	22	7	16	30	21	-1	17	12	19
Volume of new orders	16	21	16	7	15	24	22	31	29	14	19	21	5
Backlog of orders	-1	2	-2	0	-1	5	17	2	5	8	1	7	2
Number of employees	-5	-17	-10	-1	-2	3	9	11	4	8	12	9	7
Average employee workweek	12	1	-1	-4	-2	4	18	25	5	8	-4	9	6
Prices received for finished product	-2	-9	-7	-7	-3	-5	-4	-1	-5	-2	3	9	5
Prices paid for raw materials	21	20	9	7	12	8	18	16	17	27	23	39	38
Capital expenditures	n/a												
New orders for exports	-6	5	-8	2	4	6	7	2	5	-1	7	9	0
Supplier delivery time	-3	3	1	0	-2	0	-1	5	4	8	10	4	6
Inventories: Materials	-10	6	-7	-25	-18	-6	-14	-4	5	4	-4	9	11
Inventories: Finished goods	-4	3	-8	0	-10	-12	-11	-8	1	2	-3	-6	3
Versus a Year Ago													
Production	12	-4	0	-10	2	-7	8	17	34	31	35	24	27
Volume of shipments	11	-6	9	-10	1	6	11	20	36	29	29	27	32
Volume of new orders	24	4	7	-2	6	16	22	31	40	41	45	30	38
Backlog of orders	11	-6	-7	-13	-10	-3	3	12	10	21	28	22	25
Number of employees	-32	-21	-29	-33	-30	-17	-8	-13	-8	0	3	-2	12
Average employee workweek	1	-7	-20	-13	-11	-1	9	17	17	18	21	20	19
Prices received for finished product	-3	-7	-2	-7	-4	-5	1	-1	-1	4	2	8	11
Prices paid for raw materials	39	30	28	32	31	31	37	30	39	40	49	48	50
Capital expenditures	-15	-8	-1	-4	-12	-3	0	12	3	14	7	6	9
New orders for exports	-3	-1	-11	0	-5	-5	11	0	5	3	5	8	7
Supplier delivery time	-11	-4	-2	-1	-5	-3	-4	3	-4	8	5	6	7
Inventories: Materials	-16	-1	-6	-26	-17	-14	-11	-7	-5	-8	9	-5	3
Inventories: Finished goods	-10	-1	-4	-9	-5	-5	-12	-5	-7	-4	12	-7	4
Expected in Six Months (not seasonally adjusted)													
Production	33	33	36	37	32	35	37	36	55	45	49	33	43
Volume of shipments	32	40	38	35	28	28	38	38	49	50	45	39	42
Volume of new orders	38	37	36	36	36	21	40	40	50	45	45	38	39
Backlog of orders	22	16	19	23	23	24	18	22	26	12	25	25	23
Number of employees	17	15	5	9	7	5	23	13	15	24	17	12	13
Average employee workweek	10	13	7	20	8	8	11	13	15	8	19	9	10
Prices received for finished product	11	-3	7	11	5	3	10	10	9	14	17	15	25
Prices paid for raw materials	25	20	22	25	27	17	32	29	27	40	35	42	48
Capital expenditures	9	3	13	13	16	12	15	15	16	19	16	16	23
New orders for exports	5	4	-2	9	6	5	14	13	11	10	14	17	17
Supplier delivery time	9	6	7	12	-3	5	2	8	1	6	2	3	5
Inventories: Materials	-9	-6	0	-12	-14	-8	0	4	4	-1	4	-9	-6
Inventories: Finished goods	-9	-4	5	-11	-9	0	3	-6	6	3	3	-12	-2



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