



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Tenth Federal Reserve District picked up somewhat in August and was at or above year-ago levels at most plants. In addition, current and planned capital spending was very strong. Expectations for future production, however, were not quite as high as earlier in the year, and prices of raw materials increased considerably and are expected to rise further.

A summary of the August survey is attached to this press release. Results from past surveys and release dates for future surveys can be found at: <http://www.kc.frb.org/mfgsurv/mfgmain.htm>. For further information about the survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869.

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

Survey of Tenth District Manufacturing

by Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District picked up somewhat in August and was at or above year-ago levels at most plants. In addition, current and planned capital spending was very strong. Expectations for future production, however, were not quite as high as earlier in the year, and prices of raw materials increased considerably and are expected to rise further.

The net percentage of firms reporting month-over-month increases in production in August was 15, up from 1 in July and the highest reading since March (Tables 1 & 2, Chart). Still, the month-over-month production index was at the low end of its range from late 2003 to early 2005. The year-over-year production index fell from 42 to 33 but was still high by historical standards. While sample sizes make it difficult to draw firm conclusions about individual states, the data available suggest that production rose solidly in most district states from July to August but fell slightly in Nebraska and western Missouri. Production was around year-ago levels in western Missouri and much higher than a year ago in the rest of the district.

Most other month-over-month indexes of factory activity reflected moderate expansion in the district manufacturing sector. The shipments index rebounded after falling in July, rising from 7 to 15. Indexes for backlog of orders, export orders, supplier delivery time, and inventories also edged higher. The overall new orders index was largely unchanged at 9. While the employment and workweek indexes both fell somewhat from July, they were still positive.

Most other year-over-year indexes were strong, though—like production—some fell slightly from July. The index for capital spending increased from 20 to 33, its highest reading in more than 10 years. Indexes for supplier delivery times and inventories rose somewhat, while indexes for backlogs, employment, and workweek were all largely unchanged and well above zero. On the other hand, the shipments and new orders indexes both dropped to 33 from readings in the mid-40s in July.

The month-over-month price indexes both increased for the second month in a row after easing during the first half of the year. The raw materials price index jumped to 42, up from 27 in July and 18 in June. The finished goods price index rose to 13, up from 10 in July and 5 in June. Both price indexes remained lower than 2004 peaks but were quite high by historical standards. The year-over-year price indexes were virtually unchanged from recent months and still very high.

Plant managers' expectations for future factory activity remained solid but were generally down somewhat from July, with the important exception of planned capital expenditures. The future production index fell from 40 to 28, its lowest reading in a year and a half. The future shipments and orders indexes also fell, but they remained slightly higher than in June. The future employment index eased from 24 to 16, and the future workweek index also fell slightly. On the other hand, the future capital spending index jumped from 21 to 30. The last time this index posted a higher reading was in late 1997. The future price indexes both increased, rather dramatically in the case of raw materials. The future raw materials index surged from 36 to 60, the biggest one-month jump in the history of the survey. The increase pushed that index near its all-time high of 67 set in October 2004. The future finished goods price index rose more moderately, from 27 to 35, to also nearly return to late 2004 peaks. The increase in the gap between the two indexes suggests some firms do not expect to pass along expected future cost increases.

Table1

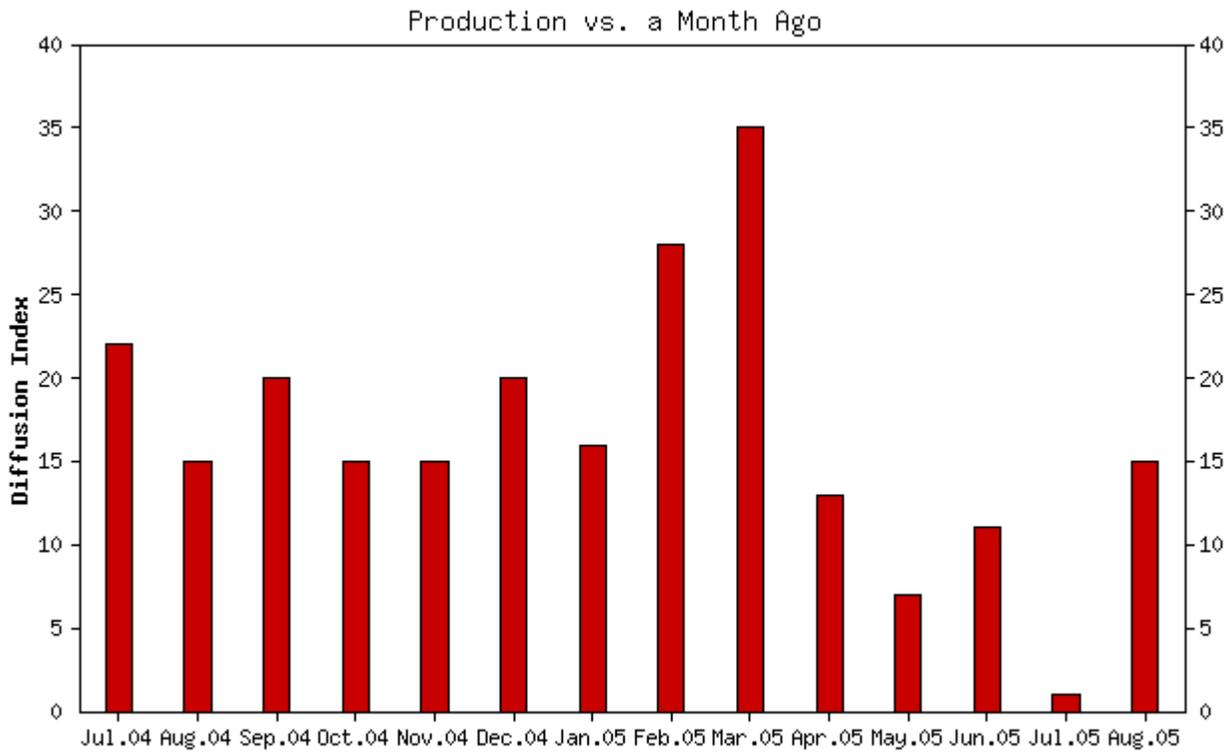
Summary of Tenth District Manufacturing Conditions, August 2005

	August vs. July (percent) ¹					August vs. Year Ago (percent) ¹					Expected in Six Months (percent) ¹				
	No		Diff		SA	No		Diff		SA	No		Diff		SA
	Increase	Change	Decrease	Index ²	Index ³	Increase	Change	Decrease	Index ²	Index ³	Increase	Change	Decrease	Index ²	Index ³
Plant Level Indicators															
Production	39	34	24	14	15	53	25	20	33	40	39	18	22	28	
Volume of shipments	41	31	26	14	15	53	25	20	33	44	35	17	26	33	
Volume of new orders	36	33	29	7	9	55	23	21	33	41	39	18	22	28	
Backlog of orders	30	46	22	8	4	44	36	16	27	26	55	15	11	18	
Number of employees	25	53	21	4	3	44	30	25	18	39	42	17	22	16	
Average employee workweek	22	64	11	11	6	35	54	9	26	24	54	19	5	7	
Prices received for finished product	15	78	5	10	13	57	32	9	48	38	51	7	31	35	
Prices paid for raw materials	46	45	6	40	42	77	13	7	70	64	24	9	55	60	
Capital expenditures						46	38	12	33	35	54	8	27	30	
New orders for exports	14	69	6	8	10	22	57	8	14	17	66	6	11	10	
Supplier delivery time	11	83	2	9	10	29	65	3	25	11	79	6	5	5	
Inventories:															
Materials	26	56	14	11	11	48	31	17	31	28	46	21	7	5	
Finished goods	26	51	17	9	8	40	41	15	24	25	51	18	7	2	

¹Percentage may not add to 100 due to rounding.²Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.³Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12. Note: The August survey included 109 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

	Jul'04	Aug'04	Sep'04	Oct'04	Nov'04	Dec'04	Jan'05	Feb'05	Mar'05	Apr'05	May'05	Jun'05	Jul'05	Aug'05
Versus a Month Ago (seasonally adjusted)														
Production	22	15	20	15	15	20	16	28	35	13	7	11	1	15
Volume of shipments	21	26	18	8	14	9	15	25	22	13	18	18	7	15
Volume of new orders	24	16	19	17	16	18	20	22	26	20	15	17	10	9
Backlog of orders	12	-9	12	4	0	0	7	7	8	9	5	1	-2	4
Number of employees	11	11	11	24	7	9	-1	17	10	9	3	7	17	3
Average employee workweek	20	12	4	11	7	5	1	6	7	0	9	14	11	6
Prices received for finished product	18	16	17	18	13	13	16	16	16	16	7	5	10	13
Prices paid for raw materials	52	55	50	58	47	40	44	42	41	32	23	18	27	42
Capital expenditures	n/a													
New orders for exports	1	-3	2	3	6	5	-1	7	6	3	1	4	4	10
Supplier delivery time	17	18	22	15	12	10	12	10	8	7	10	7	9	10
Inventories: Materials	3	11	11	9	4	3	2	7	9	15	0	7	8	11
Inventories: Finished goods	7	10	7	13	0	4	8	8	5	10	-9	-3	5	8
Versus a Year Ago (not seasonally adjusted)														
Production	45	50	47	40	44	50	37	43	44	31	34	38	42	33
Volume of shipments	48	54	50	41	47	52	46	42	34	23	39	50	46	33
Volume of new orders	51	51	50	41	43	51	45	45	42	30	45	43	44	33
Backlog of orders	37	27	31	23	29	29	33	30	26	28	29	23	26	27
Number of employees	15	24	27	25	28	30	17	14	17	20	20	23	21	18
Average employee workweek	30	29	28	21	17	23	28	15	11	12	10	23	23	26
Prices received for finished product	42	37	37	41	39	39	55	53	51	59	45	48	48	48
Prices paid for raw materials	81	72	71	76	73	75	81	82	85	79	69	70	71	70
Capital expenditures	17	16	30	19	21	18	20	25	29	29	20	27	20	33
New orders for exports	4	7	7	6	7	11	10	17	15	14	5	7	13	14
Supplier delivery time	30	24	35	22	19	18	24	22	25	23	27	17	15	25
Inventories: Materials	6	16	18	19	17	10	25	15	23	32	17	16	23	31
Inventories: Finished goods	-3	9	12	12	15	15	25	17	17	25	12	9	19	24
Expected in Six Months (seasonally adjusted)														
Production	44	45	45	40	38	38	40	43	31	35	31	33	40	28
Volume of shipments	46	47	45	36	40	39	37	46	26	34	30	30	44	33
Volume of new orders	45	44	43	36	43	42	40	38	38	34	28	24	36	28
Backlog of orders	20	16	22	21	26	25	21	15	16	18	15	-4	15	18
Number of employees	23	24	26	26	20	21	17	17	11	10	16	17	24	16
Average employee workweek	23	15	10	9	8	11	16	9	3	6	7	3	11	7
Prices received for finished product	34	23	36	36	36	36	36	36	32	30	25	23	27	35
Prices paid for raw materials	60	59	62	67	61	59	60	57	57	47	42	37	36	60
Capital expenditures	19	21	27	27	25	24	25	23	28	21	17	19	21	30
New orders for exports	8	13	13	14	15	14	19	18	5	11	11	7	13	10
Supplier delivery time	11	13	13	16	9	8	10	6	7	9	3	6	-2	5
Inventories: Materials	0	9	-5	1	1	0	8	2	3	4	1	3	-1	5
Inventories: Finished goods	-1	3	5	-1	3	-3	4	1	2	-1	-1	-1	-5	2



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