



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Tenth Federal Reserve District accelerated in December, and expectations for future factory activity were solid, especially for capital spending. The price indexes in the survey remained elevated, with expectations for future finished goods prices rising to a new record high.

A summary of the December 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 Tim Todd, Public Affairs Department, (816) 881-2308.

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 accelerated in December, and expectations for future factory activity were solid, especially for capital spending. The price indexes in the survey remained elevated, with expectations for future finished goods prices rising to a new record high.

The net percentage of firms reporting month-over-month increases in production in December was 20, up from 7 in November and 13 in October (Tables 1 & 2, Chart). The improvement was broad-based, as production accelerated at both durable- and nondurable-goods-producing plants. While the month-over-month production index rose in December, the year-over-year production index fell from 38 to 26, its lowest level in over a year and a half. The future production index, however, was virtually unchanged at 34, still relatively high by historical standards. Although sample sizes make it difficult to draw firm conclusions about individual states, the data available suggest that production remained well above year-ago levels in all district states.

Most other month-over-month indexes of factory activity improved from November to December. The shipments index moved back into positive territory, rising from -1 to 2, and the new orders index increased from 14 to 23, its highest reading since March. Indexes for backlog, workweek, and inventories were also higher than in November. On the other hand, indexes for employment, export orders, and supplier delivery time were slightly lower than a month ago.

Like production, several other year-over-year indexes fell slightly in December but, overall, district factory activity remains much stronger than a year ago. The shipments index fell from 40 in November to 26 in December, and the new orders index fell from 40 to 32. However, the employment, supplier delivery time, and inventory indexes remained similar to readings in previous months, and the capital spending index rose to 33, tying its previous survey high set in August.

As with production, plant managers' expectations for other district factory indicators remained quite solid in December. The future shipments index was largely unchanged at 32, and the future new orders index was down only slightly to 27. Meanwhile, the future employment index rebounded to 16 after falling to 2 in November, and the future capital spending index rose from 24 to a ten-year high of 32.

The price indexes in the survey were all still quite high. While the month-over-month raw materials price index fell for the second straight month, from 52 to 47, it was still higher than during the first half of 2005. The month-over-month finished goods price index was unchanged at 19, also higher than earlier in the year. The year-over-year raw materials price index rose to a new record of 85, while the year-over-year finished goods price index jumped from 45 to 58, only one point off its record high set in April. The future raw materials price index was largely unchanged at 67, while the future finished goods price index rose to 46, a new record. The increase in the future finished goods price index in conjunction with flat or falling month-over-month and future raw materials price indexes may indicate an expectation on the part of some manufacturers of increased pricing power in the months ahead.

Table1

Summary of Tenth District Manufacturing Conditions, December 2005

Plant Level Indicators	December vs. November (percent) ¹					December vs. Year Ago (percent) ¹				Expected in Six Months (percent) ¹				
	No Increase	Change	Decrease	Diff Index ²	SA Index ³	No Increase	Change	Decrease	Diff Index ²	No Increase	Change	Decrease	Diff Index ²	SA Index ³
Production	32	36	30	2	20	52	21	26	26	53	30	16	36	34
Volume of shipments	28	35	35	-7	2	54	17	28	26	53	26	19	33	32
Volume of new orders	36	30	32	4	23	52	28	19	32	46	34	17	29	27
Backlog of orders	33	39	26	7	14	43	43	11	31	30	51	16	14	11
Number of employees	19	64	16	3	7	43	32	22	20	34	46	18	16	16
Average employee workweek	19	66	14	5	16	33	53	11	21	23	60	15	8	4
Prices received for finished product	20	76	3	17	19	65	27	6	58	50	44	5	44	46
Prices paid for raw materials	44	51	3	41	47	89	6	3	85	67	27	3	64	67
Capital expenditures						46	38	13	33	43	40	15	28	32
New orders for exports	14	68	7	6	6	21	63	5	16	19	63	7	11	14
Supplier delivery time	11	84	2	9	9	19	73	5	14	13	82	4	8	12
Inventories:														
Materials	31	46	21	9	16	36	45	17	19	28	47	23	4	4
Finished goods	26	55	16	9	14	31	48	16	15	22	53	21	1	5

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.

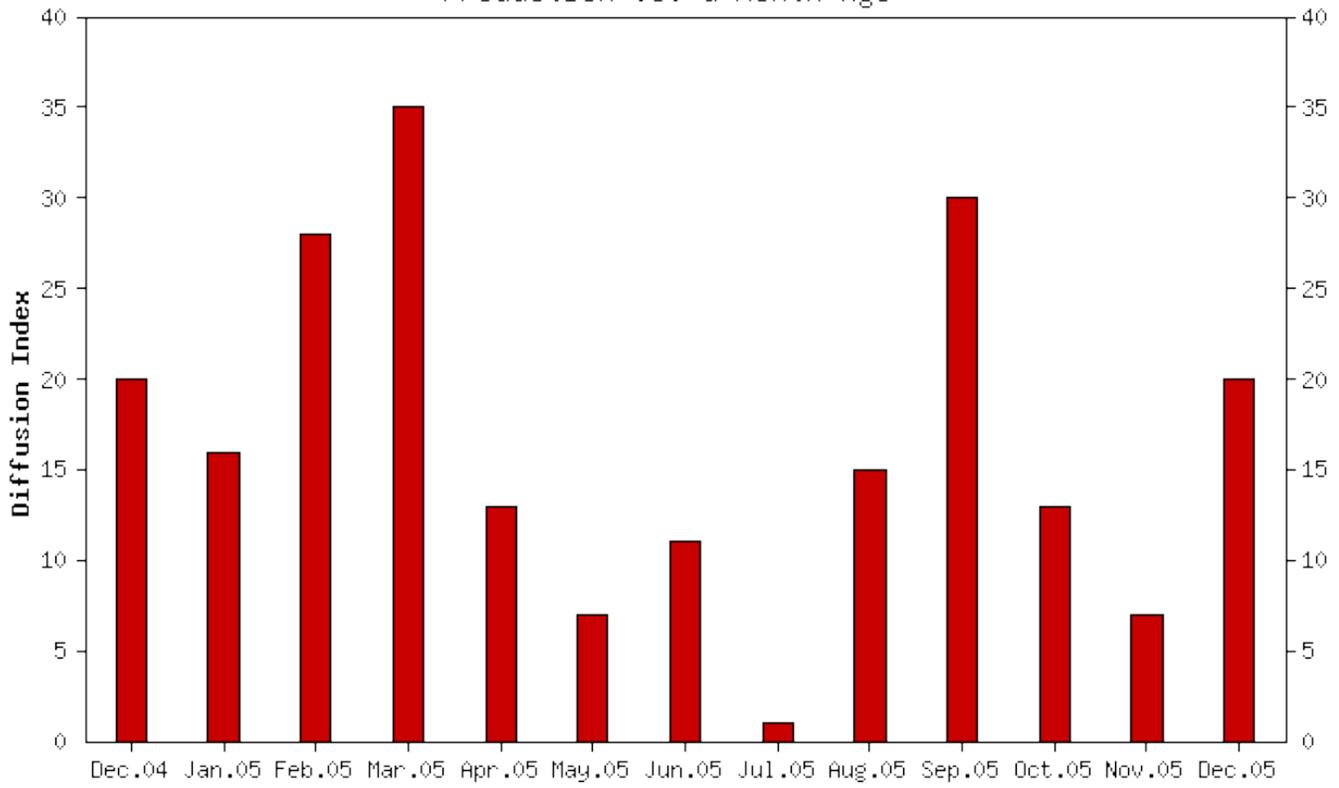
³Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12.

Note: The December survey included 92 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

	Dec'04	Jan'05	Feb'05	Mar'05	Apr'05	May'05	Jun'05	Jul'05	Aug'05	Sep'05	Oct'05	Nov'05	Dec'05
Versus a Month Ago (seasonally adjusted)													
Production	20	16	28	35	13	7	11	1	15	30	13	7	20
Volume of shipments	9	15	25	22	13	18	18	7	15	15	17	-1	2
Volume of new orders	18	20	22	26	20	15	17	10	9	21	18	14	23
Backlog of orders	0	7	7	8	9	5	1	-2	4	19	18	10	14
Number of employees	9	-1	17	10	9	3	7	17	3	3	14	10	7
Average employee workweek	5	1	6	7	0	9	14	11	6	12	10	0	16
Prices received for finished product	13	16	16	16	16	7	5	10	13	22	20	19	19
Prices paid for raw materials	40	44	42	41	32	23	18	27	42	61	62	52	47
Capital expenditures	n/a												
New orders for exports	5	-1	7	6	3	1	4	4	10	8	8	12	6
Supplier delivery time	10	12	10	8	7	10	7	9	10	17	12	13	9
Inventories: Materials	3	2	7	9	15	0	7	8	11	2	0	6	16
Inventories: Finished goods	4	8	8	5	10	-9	-3	5	8	0	1	8	14
Versus a Year Ago (not seasonally adjusted)													
Production	50	37	43	44	31	34	38	42	33	55	36	38	26
Volume of shipments	52	46	42	34	23	39	50	46	33	49	38	40	26
Volume of new orders	51	45	45	42	30	45	43	44	33	49	41	40	32
Backlog of orders	29	33	30	26	28	29	23	26	27	29	25	32	31
Number of employees	30	17	14	17	20	20	23	21	18	21	20	19	20
Average employee workweek	23	28	15	11	12	10	23	23	26	17	20	16	21
Prices received for finished product	39	55	53	51	59	45	48	48	48	55	50	45	58
Prices paid for raw materials	75	81	82	85	79	69	70	71	70	82	83	70	85
Capital expenditures	18	20	25	29	29	20	27	20	33	15	31	29	33
New orders for exports	11	10	17	15	14	5	7	13	14	12	16	14	16
Supplier delivery time	18	24	22	25	23	27	17	15	25	25	19	15	14
Inventories: Materials	10	25	15	23	32	17	16	23	31	21	15	22	19
Inventories: Finished goods	15	25	17	17	25	12	9	19	24	19	10	14	15
Expected in Six Months (seasonally adjusted)													
Production	38	40	43	31	35	31	33	40	28	38	25	33	34
Volume of shipments	39	37	46	26	34	30	30	44	33	36	27	33	32
Volume of new orders	42	40	38	38	34	28	24	36	28	23	26	32	27
Backlog of orders	25	21	15	16	18	15	-4	15	18	8	11	12	11
Number of employees	21	17	17	11	10	16	17	24	16	16	22	2	16
Average employee workweek	11	16	9	3	6	7	3	11	7	-2	4	0	4
Prices received for finished product	36	36	36	32	30	25	23	27	35	43	38	42	46
Prices paid for raw materials	59	60	57	57	47	42	37	36	60	75	78	66	67
Capital expenditures	24	25	23	28	21	17	19	21	30	19	24	24	32
New orders for exports	14	19	18	5	11	11	7	13	10	11	13	7	14
Supplier delivery time	8	10	6	7	9	3	6	-2	5	10	13	10	12
Inventories: Materials	0	8	2	3	4	1	3	-1	5	5	3	11	4
Inventories: Finished goods	-3	4	1	2	-1	-1	-1	-5	2	6	5	7	5

Production vs. a Month Ago



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