



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Great Plains and Rocky Mountain region encompassed by the Tenth Federal Reserve District expanded solidly in February and expectations for future factory activity remained very strong.

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.kansascityfed.org>

Survey of Tenth District Manufacturing

by Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District expanded solidly in February. The year-over-year production index rose after falling somewhat in January, and expectations for future factory activity remained very strong. Manufacturing price pressures persisted. The year-over-year raw materials and finished goods price indexes were at or near record highs, and firms generally expect price pressures to continue in the months ahead. All of the month-over-month indexes in the survey rose in February, but the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons.

The net percentage of firms reporting year-over-year increases in production rose to 43 in February, after falling from 50 in December to 37 in January (Tables 1 & 2). The small increase was due to improvement at nondurable-goods-producing plants, as the production index for durable-goods-producing firms remained about the same as last month's high level. While sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production was well above year-ago levels in most district states.

Other year-over-year indexes of factory activity were somewhat mixed, though generally still quite solid. The capital spending index rose from 20 to 26, and the export orders index rose to 18, its highest reading since 1996. Meanwhile, the overall new orders index was unchanged at 45, and the shipments, employment, and workweek indexes eased slightly. The inventory indexes also fell somewhat after jumping to record levels in January.

The year-over-year price indexes changed only slightly from January's high levels. The raw materials price index edged up from 81 to 83, its highest reading ever, and the finished goods price index posted a reading of 54 after rising to a record 55 last month. The gap between the two price indexes was narrower in January and February than at any time during 2003 or 2004, although the fact that the gap is still relatively large suggests some firms continue to have difficulties passing price increases on to customers.

Plant managers' expectations for future factory activity were very high. The six-month-ahead production index edged up to 48. The last time the index exceeded this level was in late 2003. The future new orders and employment indexes also rose. The future shipments, capital spending, and export indexes were virtually unchanged from January but still high by historical standards. The future raw materials price index edged up from 60 to 61, only slightly below its April 2004 peak of 65. Meanwhile, the future finished goods price index rose from 36 to 42, its highest level ever. Although a sizable gap persists between the two future price indexes, the gap is the smallest since late 2003, suggesting that firms may anticipate some increase in pricing power in the months ahead.

Table1

Summary of Tenth District Manufacturing Conditions, February 2005

| | 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 | 49 | 33 | 17 | 32 | 63 | 15 | 20 | 43 | 59 | 26 | 11 | 48 |
| Volume of shipments | 46 | 30 | 21 | 25 | 60 | 18 | 18 | 42 | 61 | 23 | 11 | 50 |
| Volume of new orders | 45 | 33 | 19 | 26 | 59 | 23 | 14 | 45 | 57 | 22 | 16 | 41 |
| Backlog of orders | 31 | 41 | 23 | 8 | 47 | 31 | 16 | 31 | 33 | 44 | 15 | 18 |
| Number of employees | 29 | 55 | 14 | 15 | 41 | 30 | 26 | 15 | 39 | 41 | 16 | 23 |
| Average employee workweek | 23 | 61 | 15 | 8 | 31 | 50 | 16 | 15 | 25 | 56 | 15 | 10 |
| Prices received for finished product | 21 | 74 | 1 | 20 | 61 | 27 | 7 | 54 | 46 | 45 | 4 | 42 |
| Prices paid for raw materials | 50 | 48 | 1 | 49 | 84 | 9 | 1 | 83 | 65 | 26 | 4 | 61 |
| Capital expenditures | | | | | 37 | 50 | 11 | 26 | 38 | 44 | 14 | 24 |
| New orders for exports | 11 | 74 | 5 | 6 | 24 | 61 | 6 | 18 | 25 | 62 | 3 | 22 |
| Supplier delivery time | 11 | 84 | 2 | 9 | 27 | 63 | 5 | 22 | 11 | 80 | 5 | 6 |
| Inventories: | | | | | | | | | | | | |
| Materials | 26 | 53 | 18 | 8 | 39 | 35 | 24 | 15 | 25 | 47 | 24 | 1 |
| Finished goods | 27 | 52 | 16 | 11 | 36 | 40 | 19 | 17 | 21 | 53 | 20 | 1 |

* 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.

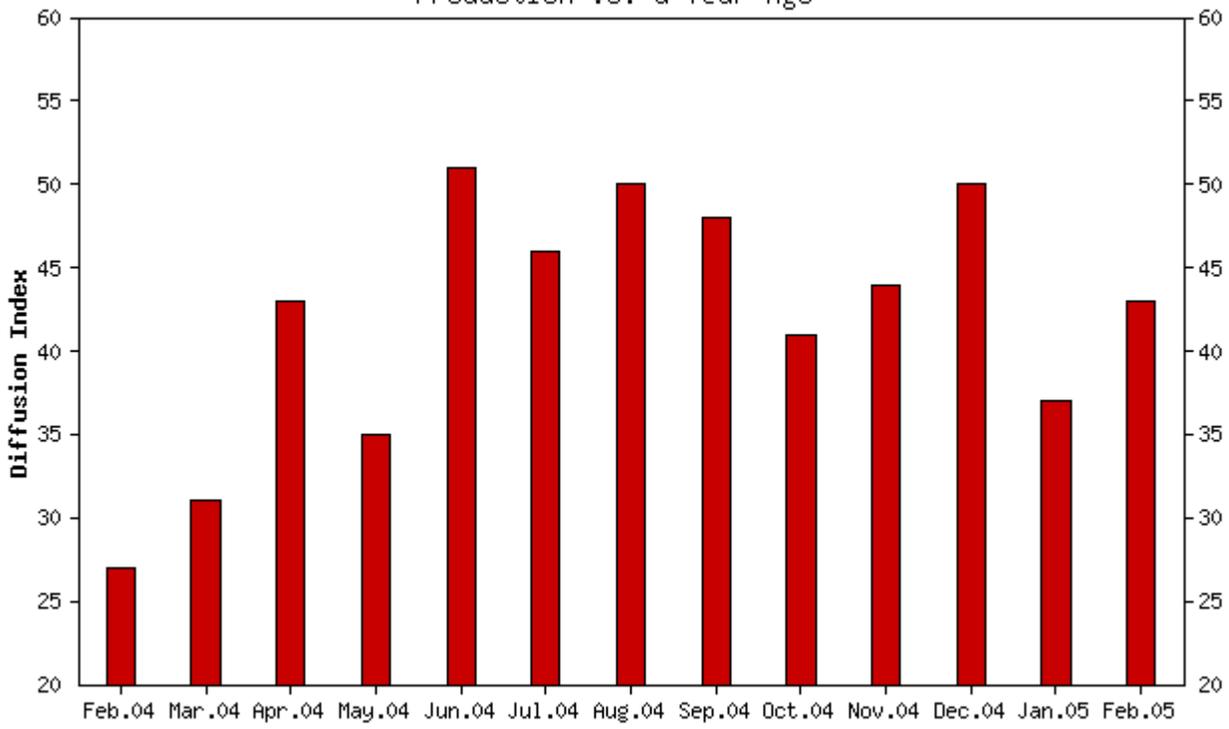
Note: The February survey included 104 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2

Historical Manufacturing Survey Indexes

| | Feb'04 | Mar'04 | Apr'04 | May'04 | Jun'04 | Jul'04 | Aug'04 | Sep'04 | Oct'04 | Nov'04 | Dec'04 | Jan'05 | Feb'05 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Versus a Month Ago (not seasonally adjusted) | | | | | | | | | | | | | |
| Production | 14 | 27 | 28 | 23 | 26 | 20 | 15 | 20 | 20 | 6 | 2 | 18 | 32 |
| Volume of shipments | 19 | 37 | 36 | 14 | 25 | 14 | 25 | 23 | 3 | 4 | -1 | 11 | 25 |
| Volume of new orders | 5 | 29 | 34 | 20 | 23 | 21 | 15 | 19 | 18 | 8 | -1 | 22 | 26 |
| Backlog of orders | 2 | 10 | 28 | 22 | 4 | 13 | -6 | 7 | 3 | -3 | -7 | 9 | 8 |
| Number of employees | 7 | 15 | 14 | 18 | 16 | 11 | 12 | 13 | 22 | 4 | 5 | -4 | 15 |
| Average employee workweek | 6 | 11 | 17 | 15 | 16 | 21 | 17 | 6 | 12 | 5 | -5 | 2 | 8 |
| Prices received for finished product | 5 | 17 | 28 | 22 | 9 | 16 | 14 | 16 | 15 | 9 | 12 | 18 | 20 |
| Prices paid for raw materials | 38 | 57 | 67 | 56 | 54 | 47 | 52 | 46 | 53 | 43 | 35 | 46 | 49 |
| Capital expenditures | n/a |
| New orders for exports | 0 | 5 | 9 | 0 | 1 | 1 | -6 | 0 | 3 | 5 | 6 | 1 | 6 |
| Supplier delivery time | 6 | 15 | 27 | 16 | 6 | 16 | 17 | 22 | 13 | 10 | 10 | 14 | 9 |
| Inventories: Materials | 11 | 3 | 15 | 13 | -2 | 1 | 13 | 11 | 12 | 5 | -5 | 5 | 8 |
| Inventories: Finished goods | 3 | -6 | 1 | 9 | 0 | 4 | 11 | 6 | 17 | 1 | -2 | 7 | 11 |
| Versus a Year Ago | | | | | | | | | | | | | |
| Production | 27 | 31 | 43 | 35 | 51 | 46 | 50 | 48 | 41 | 44 | 50 | 37 | 43 |
| Volume of shipments | 32 | 34 | 45 | 39 | 46 | 49 | 55 | 51 | 42 | 47 | 53 | 47 | 42 |
| Volume of new orders | 38 | 29 | 52 | 45 | 47 | 51 | 52 | 50 | 42 | 44 | 52 | 45 | 45 |
| Backlog of orders | 25 | 21 | 31 | 33 | 28 | 37 | 27 | 31 | 23 | 30 | 29 | 34 | 31 |
| Number of employees | 12 | 14 | 19 | 19 | 22 | 15 | 25 | 27 | 25 | 28 | 30 | 18 | 15 |
| Average employee workweek | 19 | 16 | 24 | 21 | 37 | 30 | 29 | 28 | 21 | 17 | 23 | 29 | 15 |
| Prices received for finished product | 11 | 19 | 37 | 34 | 34 | 42 | 37 | 38 | 41 | 40 | 40 | 55 | 54 |
| Prices paid for raw materials | 50 | 64 | 82 | 75 | 71 | 82 | 73 | 72 | 77 | 74 | 76 | 81 | 83 |
| Capital expenditures | 9 | 18 | 22 | 22 | 23 | 17 | 16 | 30 | 19 | 21 | 18 | 20 | 26 |
| New orders for exports | 7 | 10 | 9 | 3 | 2 | 5 | 8 | 7 | 6 | 8 | 12 | 11 | 18 |
| Supplier delivery time | 7 | 20 | 26 | 20 | 22 | 30 | 24 | 35 | 23 | 19 | 18 | 24 | 22 |
| Inventories: Materials | 3 | 6 | 5 | 16 | 9 | 6 | 17 | 19 | 20 | 18 | 10 | 25 | 15 |
| Inventories: Finished goods | 4 | -5 | -2 | 3 | 1 | -3 | 9 | 13 | 12 | 16 | 15 | 25 | 17 |
| Expected in Six Months (not seasonally adjusted) | | | | | | | | | | | | | |
| Production | 43 | 40 | 46 | 36 | 48 | 40 | 39 | 39 | 39 | 38 | 41 | 46 | 48 |
| Volume of shipments | 42 | 45 | 53 | 35 | 44 | 36 | 40 | 38 | 35 | 43 | 41 | 44 | 50 |
| Volume of new orders | 39 | 36 | 46 | 28 | 47 | 36 | 39 | 38 | 37 | 44 | 43 | 41 | 41 |
| Backlog of orders | 23 | 25 | 26 | 17 | 29 | 16 | 9 | 17 | 20 | 26 | 28 | 24 | 18 |
| Number of employees | 13 | 19 | 28 | 18 | 16 | 15 | 30 | 23 | 26 | 23 | 21 | 16 | 23 |
| Average employee workweek | 10 | 7 | 12 | 5 | 13 | 18 | 14 | 8 | 8 | 6 | 15 | 21 | 10 |
| Prices received for finished product | 25 | 24 | 39 | 28 | 28 | 31 | 20 | 30 | 30 | 36 | 34 | 36 | 42 |
| Prices paid for raw materials | 48 | 55 | 65 | 57 | 49 | 61 | 55 | 54 | 59 | 59 | 56 | 60 | 61 |
| Capital expenditures | 23 | 22 | 34 | 25 | 23 | 18 | 19 | 25 | 25 | 24 | 20 | 23 | 24 |
| New orders for exports | 17 | 15 | 14 | 8 | 7 | 5 | 14 | 10 | 13 | 13 | 12 | 23 | 22 |
| Supplier delivery time | 5 | 14 | 11 | 13 | 1 | 11 | 14 | 14 | 16 | 8 | 5 | 9 | 6 |
| Inventories: Materials | -6 | 1 | 1 | 5 | -6 | -2 | 11 | -5 | 4 | -1 | -1 | 5 | 1 |
| Inventories: Finished goods | -2 | -10 | -2 | -2 | 2 | 0 | 9 | 4 | 0 | 1 | -8 | 5 | 1 |

Production vs. a Year Ago



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