



News Release

Federal Reserve Bank of Kansas City

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FOR RELEASE Monday, May 9, 2005
EMBARGOED FOR 11:00 A.M. EST

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Manufacturing activity in the Tenth Federal Reserve District expanded less rapidly in April than in the previous two months, but expectations for future activity remained strong. Many firms continued to raise output prices even as growth in materials prices eased somewhat, and further increases in output prices are expected in the months ahead.

A summary of the April 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 April 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 less rapidly in April than in the previous two months, but expectations for future activity remained strong. Many firms continued to raise output prices even as growth in materials prices eased somewhat, and further increases in output prices are expected in the months ahead. All of the month-over-month indexes in the survey rose for the third month in a row, 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 fell from 44 in March to 32 in April, the lowest reading since March 2004 (Tables 1 & 2). Even at 32, however, the index was relatively high by historical standards. The production index fell somewhat among both durable-goods-producing plants and nondurable-goods-producing plants, though the indexes for both types of firms remained well above zero. While sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production remained above year-ago levels in all district states.

Other year-over-year indexes of factory activity were mixed. The shipments index fell for the fourth month in a row, dropping from 34 to 24, its lowest reading since late 2003. Several firms noted that they were delaying some shipments to ensure full truckloads and thus save on fuel costs. Like the production and shipments indexes, the new orders index also fell to its lowest level in over a year. More positively, the employment index edged up for the second month in a row, and the capital spending index remained quite high at 29. The inventory indexes both increased nearly 10 points. The index for raw materials inventories rose to 33, its highest reading on record. Similarly, the index for finished goods inventories rose to a ten-year high, perhaps due to the delaying of shipments by some firms.

The gap between the year-over-year price indexes closed considerably in April. The finished goods price index rose to 59, surpassing its previous all-time peak of 55 set in January. Meanwhile, the raw materials price index fell from a record 86 in March to 79 in April. The gap between the two indexes was the smallest in nearly three years, suggesting a greater ability of firms to pass cost increases through to customers.

Plant managers' expectations for future factory activity improved in April after falling somewhat in March. The six-month-ahead production index rose from 33 to 41. This level was below the high readings of January and February but very similar to the second half of 2004 and still quite high by historical standards. The future shipments index also rose solidly, while the future new orders index remained similar to its high readings of the past year. On a less upbeat note, the future employment and capital spending indexes both fell slightly. Indeed, the future employment index was the lowest since mid-2003. Finally, similar to the year-over-year price indexes, the gap between the future price indexes narrowed somewhat, suggesting some firms expect continued improvement in their ability to pass cost increases through to customers.

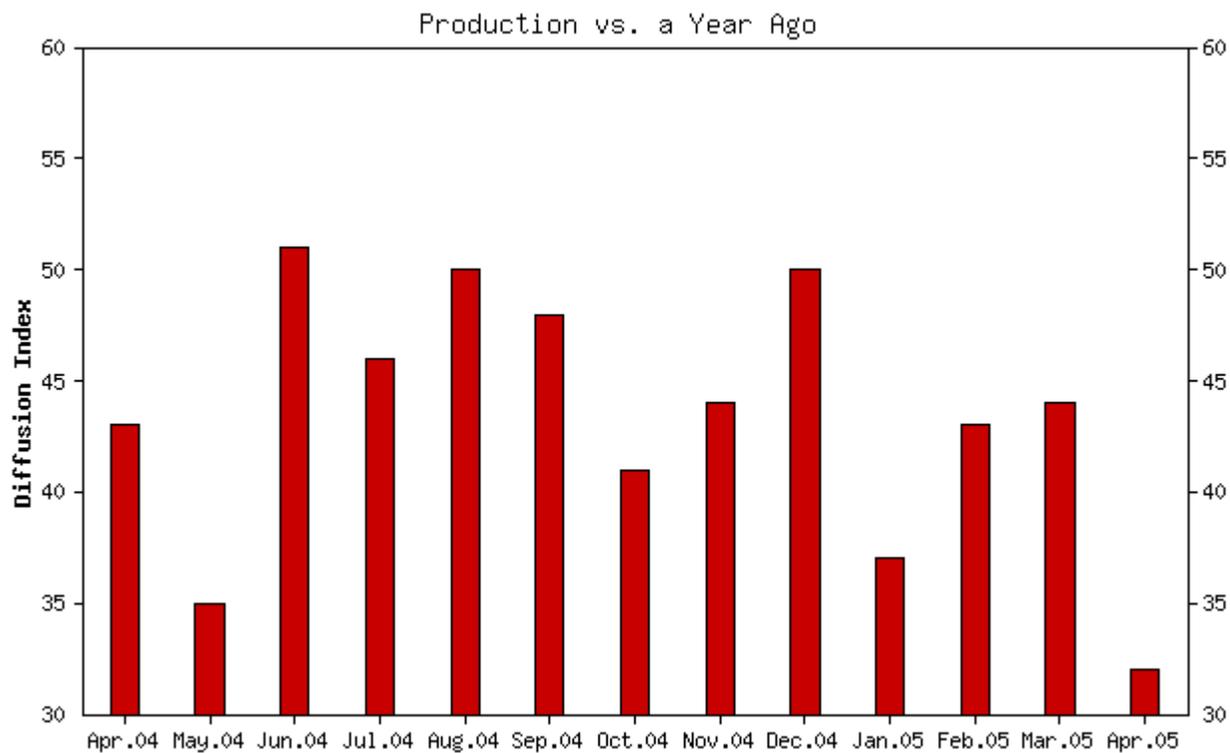
Table1

Summary of Tenth District Manufacturing Conditions, April 2005

	April vs. March (percent, not seasonally adjusted)				April 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	38	19	20	57	15	25	32	56	26	15	41
Volume of shipments	43	33	21	22	53	16	29	24	57	26	15	42
Volume of new orders	45	35	16	29	55	18	24	31	56	24	16	40
Backlog of orders	34	41	21	13	47	29	19	28	36	45	14	22
Number of employees	26	57	15	11	45	27	25	20	29	51	18	11
Average employee workweek	20	58	19	1	33	43	21	12	22	62	13	9
Prices received for finished product	24	72	2	22	66	25	7	59	44	48	5	39
Prices paid for raw materials	43	50	5	38	83	11	4	79	62	30	6	56
Capital expenditures					41	43	12	29	38	43	13	25
New orders for exports	11	72	6	5	20	64	6	14	17	68	5	12
Supplier delivery time	10	85	2	8	30	61	7	23	17	75	4	13
Inventories:												
Materials	33	53	12	21	51	28	18	33	30	43	23	7
Finished goods	26	54	15	11	42	35	17	25	24	42	26	-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 April survey included 98 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.



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