



# News Release

## Federal Reserve Bank of Kansas City

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Manufacturing activity in the Tenth Federal Reserve District grew strongly in September, and expectations for future factory activity remained fairly solid. All of the price indexes in the survey increased and were at or near record levels.

A summary of the September 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 grew strongly in September, and expectations for future factory activity remained fairly solid. All of the price indexes in the survey increased and were at or near record levels.

The net percentage of firms reporting month-over-month increases in production in September was 30, up from 15 in August and the third-largest monthly increase in the eleven-year history of the survey (Tables 1 & 2, Chart). The year-over-year production index rose from 42 to 55, its highest reading ever. Production at durable-goods-producing plants was especially strong in September, while production at nondurable-goods-producing plants also increased solidly. Although sample sizes make it difficult to draw firm conclusions about individual states, the data available suggest that production rose solidly in all district states in September.

Most other month-over-month indexes of factory activity reflected solid expansion in the district manufacturing sector. The new orders index rose from 9 to 21, the backlog index jumped from 4 to 19, and the index for supplier delivery times was the highest in a year. The shipments index was unchanged at a solid reading of 15. On the other hand, the employment index was just barely positive for the second month in a row after jumping in July. The inventory indexes—for both materials and finished goods—fell back to around zero after rising in recent months.

Most other year-over-year indexes increased or remained strong. The shipments and orders indexes both jumped from 33 to 49, near their 2004 highs. The indexes for order backlogs and employment also rose slightly and were at solid levels. On the other hand, the inventory indexes fell slightly, and the capital spending index dropped quite a bit—from a record high of ten-year high of 33 in August to just 15 in September.

Plant managers' expectations for future factory activity remained fairly solid. The future production index actually rose moderately in September after falling to its lowest reading in a year and a half in August, when the survey was taken in the days leading up to Hurricane Katrina's landfall. The future shipments index also rose slightly after falling considerably in August. On the other hand, the future new orders index fell from 28 to 23, its lowest reading since late 2001. The future capital spending index also fell to 19 after rising to an eight-year high of 30 in August. Still, the future orders and capital spending indexes had posted readings of 24 and 19, respectively, in June, so manufacturers' current expectations for sales and investment are not considerably different from just a few months ago. In another encouraging sign, the future employment index was unchanged at 16.

The price indexes in the survey all increased and were at or near record levels. The month-over-month raw materials price index jumped from 42 to a record 61, and the month-over-month finished goods price index rose from 13 to 22. Both month-over-month indexes had eased considerably in the first half of the year, reaching recent lows of 18 and 5, respectively, in June. The year-over-year raw materials price index rose from 70 to 82, while the year-over-year finished goods price index rose from 48 to 55. Both year-over-year indexes in September were only slightly below peaks reached in the spring. The six-month-ahead price indexes both rose to easily their highest readings in the history of the survey. The future raw materials price index rose from 60 to 75, while the future finished goods price index rose from 35 to 43. The continued gap between raw materials and finished good price indexes suggests many firms continue to have difficulties passing cost increases through to customers.

Table1

## Summary of Tenth District Manufacturing Conditions, September 2005

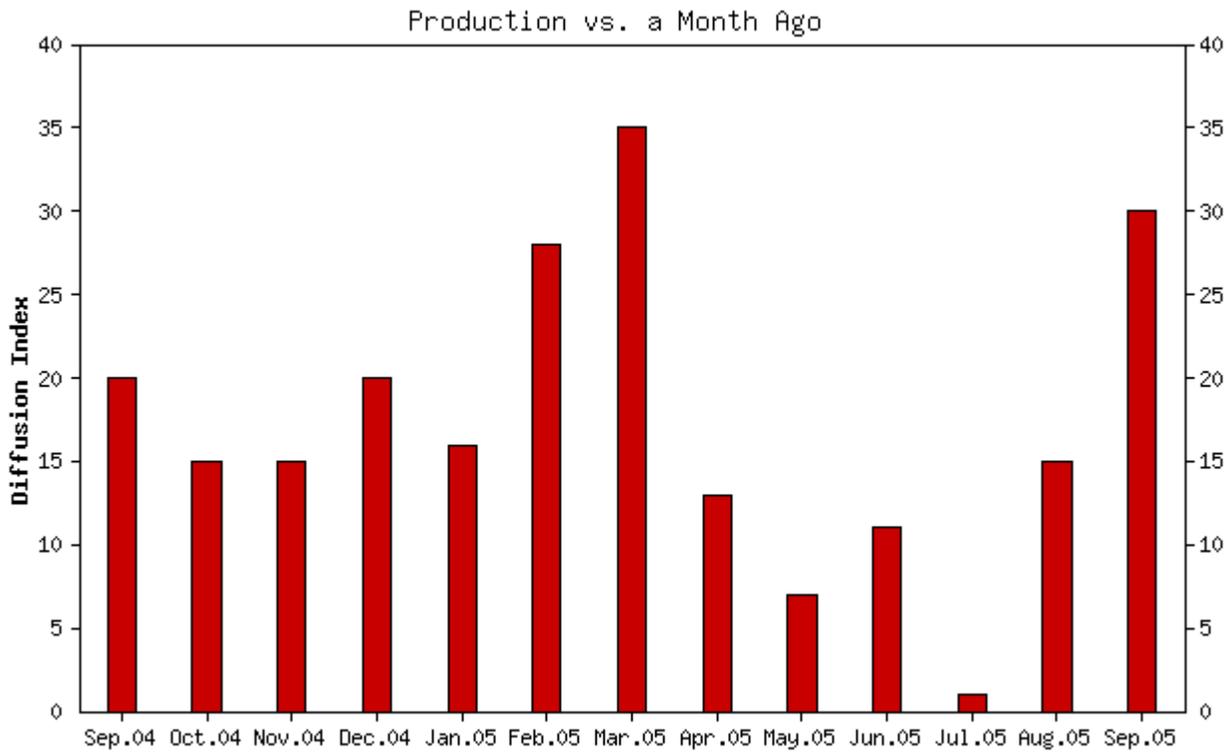
	September vs. August (percent) <sup>1</sup>					September vs. Year Ago (percent) <sup>1</sup>				Expected in Six Months (percent) <sup>1</sup>				
	No		Diff		SA	No		Diff		No		Diff		SA
	Increase	Change	Decrease	Index <sup>2</sup>	Index <sup>3</sup>	Increase	Change	Decrease	Index <sup>2</sup>	Increase	Change	Decrease	Index <sup>2</sup>	Index <sup>3</sup>
<b>Plant Level Indicators</b>														
Production	45	38	15	29	30	69	16	13	55	51	27	19	32	38
Volume of shipments	42	32	23	19	15	63	18	14	49	50	25	22	28	36
Volume of new orders	38	40	17	21	21	62	19	13	49	42	28	24	18	23
Backlog of orders	30	50	15	14	19	42	40	12	29	25	49	21	3	8
Number of employees	20	63	15	4	3	42	36	21	21	33	45	20	12	16
Average employee workweek	22	68	9	12	12	29	54	12	17	12	67	18	-5	-2
Prices received for finished product	25	68	4	21	22	62	30	6	55	45	46	7	37	43
Prices paid for raw materials	59	37	2	56	61	85	12	2	82	72	21	4	67	75
Capital expenditures						37	37	22	15	28	57	11	17	19
New orders for exports	8	81	2	5	8	18	67	6	12	12	74	4	8	11
Supplier delivery time	19	75	2	16	17	31	61	5	25	16	76	4	12	10
<b>Inventories:</b>														
Materials	23	55	21	1	2	42	36	21	21	25	51	20	5	5
Finished goods	21	54	22	0	0	36	45	16	19	22	58	17	4	6

<sup>1</sup>Percentage may not add to 100 due to rounding.<sup>2</sup>Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.<sup>3</sup>Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12.

Note: The September survey included 108 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

**Table2**  
**Historical Manufacturing Survey Indexes**

	Sep'04	Oct'04	Nov'04	Dec'04	Jan'05	Feb'05	Mar'05	Apr'05	May'05	Jun'05	Jul'05	Aug'05	Sep'05
<b>Versus a Month Ago (seasonally adjusted)</b>													
<b>Production</b>	20	15	15	20	16	28	35	13	7	11	1	15	30
<b>Volume of shipments</b>	18	8	14	9	15	25	22	13	18	18	7	15	15
<b>Volume of new orders</b>	19	17	16	18	20	22	26	20	15	17	10	9	21
<b>Backlog of orders</b>	12	4	0	0	7	7	8	9	5	1	-2	4	19
<b>Number of employees</b>	11	24	7	9	-1	17	10	9	3	7	17	3	3
<b>Average employee workweek</b>	4	11	7	5	1	6	7	0	9	14	11	6	12
<b>Prices received for finished product</b>	17	18	13	13	16	16	16	16	7	5	10	13	22
<b>Prices paid for raw materials</b>	50	58	47	40	44	42	41	32	23	18	27	42	61
<b>Capital expenditures</b>	n/a												
<b>New orders for exports</b>	2	3	6	5	-1	7	6	3	1	4	4	10	8
<b>Supplier delivery time</b>	22	15	12	10	12	10	8	7	10	7	9	10	17
<b>Inventories: Materials</b>	11	9	4	3	2	7	9	15	0	7	8	11	2
<b>Inventories: Finished goods</b>	7	13	0	4	8	8	5	10	-9	-3	5	8	0
<b>Versus a Year Ago (not seasonally adjusted)</b>													
<b>Production</b>	47	40	44	50	37	43	44	31	34	38	42	33	55
<b>Volume of shipments</b>	50	41	47	52	46	42	34	23	39	50	46	33	49
<b>Volume of new orders</b>	50	41	43	51	45	45	42	30	45	43	44	33	49
<b>Backlog of orders</b>	31	23	29	29	33	30	26	28	29	23	26	27	29
<b>Number of employees</b>	27	25	28	30	17	14	17	20	20	23	21	18	21
<b>Average employee workweek</b>	28	21	17	23	28	15	11	12	10	23	23	26	17
<b>Prices received for finished product</b>	37	41	39	39	55	53	51	59	45	48	48	48	55
<b>Prices paid for raw materials</b>	71	76	73	75	81	82	85	79	69	70	71	70	82
<b>Capital expenditures</b>	30	19	21	18	20	25	29	29	20	27	20	33	15
<b>New orders for exports</b>	7	6	7	11	10	17	15	14	5	7	13	14	12
<b>Supplier delivery time</b>	35	22	19	18	24	22	25	23	27	17	15	25	25
<b>Inventories: Materials</b>	18	19	17	10	25	15	23	32	17	16	23	31	21
<b>Inventories: Finished goods</b>	12	12	15	15	25	17	17	25	12	9	19	24	19
<b>Expected in Six Months (seasonally adjusted)</b>													
<b>Production</b>	45	40	38	38	40	43	31	35	31	33	40	28	38
<b>Volume of shipments</b>	45	36	40	39	37	46	26	34	30	30	44	33	36
<b>Volume of new orders</b>	43	36	43	42	40	38	38	34	28	24	36	28	23
<b>Backlog of orders</b>	22	21	26	25	21	15	16	18	15	-4	15	18	8
<b>Number of employees</b>	26	26	20	21	17	17	11	10	16	17	24	16	16
<b>Average employee workweek</b>	10	9	8	11	16	9	3	6	7	3	11	7	-2
<b>Prices received for finished product</b>	36	36	36	36	36	36	32	30	25	23	27	35	43
<b>Prices paid for raw materials</b>	62	67	61	59	60	57	57	47	42	37	36	60	75
<b>Capital expenditures</b>	27	27	25	24	25	23	28	21	17	19	21	30	19
<b>New orders for exports</b>	13	14	15	14	19	18	5	11	11	7	13	10	11
<b>Supplier delivery time</b>	13	16	9	8	10	6	7	9	3	6	-2	5	10
<b>Inventories: Materials</b>	-5	1	1	0	8	2	3	4	1	3	-1	5	5
<b>Inventories: Finished goods</b>	5	-1	3	-3	4	1	2	-1	-1	-1	-5	2	6



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