



# News Release

## Federal Reserve Bank of Kansas City

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Tenth District manufacturing activity declined somewhat in March, and firms' expectations for future factory activity weakened but still called for modest overall expansion in coming months. Price pressures intensified, due to higher raw materials and transportation costs, and producers indicated more price pass-through than in recent months.

A summary of the March 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

Tenth District manufacturing activity declined somewhat in March, and firms' expectations for future factory activity weakened but still called for modest overall expansion in coming months. Price pressures intensified, due to higher raw materials and transportation costs, and producers indicated more price pass-through than in recent months.

The net percentage of firms reporting month-over-month increases in production in March was -5, unchanged from February and down from 7 in January (Tables 1 & 2, Chart). Production remained especially weak among non-durable goods producers. Like production, the majority of other month-over-month indexes were negative or sluggish. The shipments index was unchanged at -5, while the new orders index declined from 6 to -8, its lowest level in over six years. The order backlog index dropped lower, and the employment index fell to -10, a five-year low. In contrast, the new export orders index recorded its highest level in over six years, with many firms citing strong overseas demand due to the weak dollar. Both inventory indexes remained largely unchanged and close to zero.

The majority of year-over-year indexes also declined in March. The production and shipments indexes fell to their lowest levels in five years –zero– after rising slightly last month. The new orders index dropped from 13 to -9, and the order backlog index also continued to decrease. The employment index edged down for the second straight month, and the employee workweek was cut back further. However, the capital expenditure index still remained generally solid, and the new export orders index climbed higher. Both inventory indexes fell slightly from the previous survey.

After posting solid readings last month, most future factory activity indexes weakened in March, but remained above zero. The future production index declined from 26 to 6 and the future shipments index fell from 30 to 11, each index's lowest level in over six years. The future new orders, order backlog, and employment indexes all dropped for the second straight month. The future capital expenditures index decreased after rising last month, and the future employee workweek was expected to fall to an all-time survey low. In contrast, the future new export orders index climbed higher, reaching its highest level in survey history. The future raw materials inventory index dropped from 5 to -6, while the future finished good inventory index declined only slightly.

All price indexes rose further in March, with notable increases in finished goods indexes. The month-over-month raw materials price index increased from 58 to 64, an all-time high, and the finished goods price index jumped to its highest level in four years. The year-over-year finished goods price index rose from 53 to 60, and the raw materials price index remained unchanged. The future finished goods price index increased for the fourth straight month to an all-time survey high, and the future raw materials index edged up from 73 to 74, also a historical peak. Several producers cited high commodity prices – particularly steel, oil, and wheat-based products – and increasing freight costs. Contacts also noted the greater need for and increased use of price pass-through, particularly for transportation costs.

Table1

## Summary of Tenth District Manufacturing Conditions, March 2008

Plant Level Indicators	March vs. February (percent) <sup>1</sup>					March 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>
Production	28	44	26	1	-5	36	24	37	0	40	28	30	10	6
Volume of shipments	32	39	27	4	-5	37	22	37	0	39	29	28	11	11
Volume of new orders	26	44	26	0	-8	29	28	38	-9	42	29	26	15	12
Backlog of orders	21	49	26	-5	-5	21	43	32	-11	31	44	21	10	9
Number of employees	15	60	22	-7	-10	39	23	33	5	34	41	22	12	10
Average employee workweek	12	66	18	-5	-5	14	57	26	-11	14	63	20	-5	-7
Prices received for finished product	28	65	5	22	23	67	22	7	60	54	34	8	45	49
Prices paid for raw materials	65	33	1	63	64	88	4	4	84	77	18	2	74	74
Capital expenditures						33	43	19	14	28	50	18	10	11
New orders for exports	16	68	0	15	13	21	60	9	11	25	59	5	20	22
Supplier delivery time	9	86	1	7	6	16	72	5	11	11	84	1	9	10
Inventories:														
Materials	16	64	17	0	-3	25	47	24	0	20	54	24	-4	-6
Finished goods	24	55	14	10	6	29	44	22	6	22	53	22	0	-1

<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.

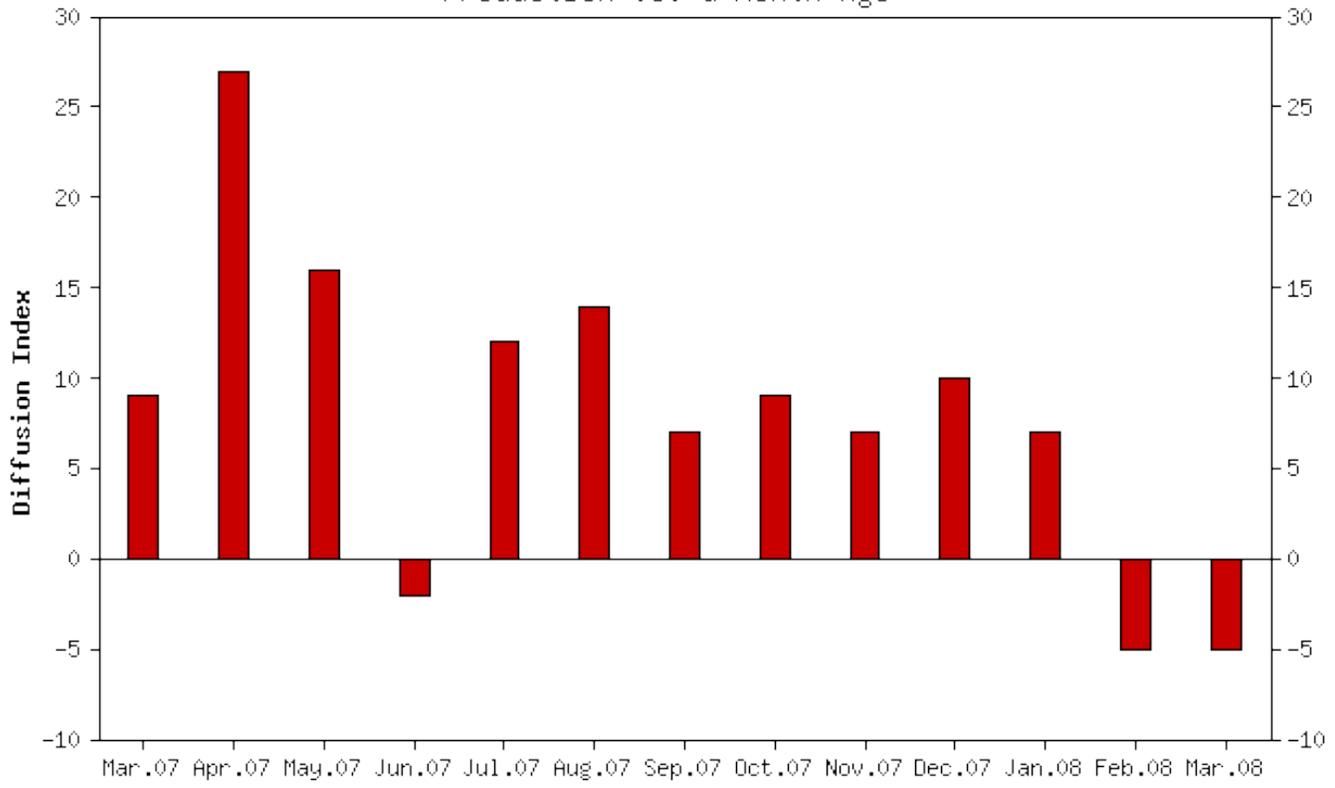
Note: The March survey included 109 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2

## Historical Manufacturing Survey Indexes

	Mar'07	Apr'07	May'07	Jun'07	Jul'07	Aug'07	Sep'07	Oct'07	Nov'07	Dec'07	Jan'08	Feb'08	Mar'08
<b>Versus a Month Ago (seasonally adjusted)</b>													
Production	9	27	16	-2	12	14	7	9	7	10	7	-5	-5
Volume of shipments	5	26	15	-2	14	15	7	13	12	5	2	-5	-5
Volume of new orders	11	20	16	8	8	20	5	0	12	8	15	6	-8
Backlog of orders	2	8	0	9	0	4	1	-3	5	2	2	0	-5
Number of employees	2	10	13	9	2	2	1	-1	-3	1	8	-5	-10
Average employee workweek	-5	2	12	-4	0	3	1	-3	0	2	-3	-3	-5
Prices received for finished product	4	8	16	14	12	9	8	11	11	8	15	13	23
Prices paid for raw materials	41	36	41	37	43	21	29	35	43	32	47	58	64
Capital expenditures	n/a												
New orders for exports	-2	5	2	2	5	5	4	3	4	2	8	4	13
Supplier delivery time	7	5	2	6	5	4	4	6	7	6	10	7	6
Inventories: Materials	8	3	5	9	11	-3	-2	-5	-5	-1	-4	-2	-3
Inventories: Finished goods	6	-1	1	2	0	-3	-12	-6	-6	-3	3	7	6
<b>Versus a Year Ago (not seasonally adjusted)</b>													
Production	20	28	33	23	16	27	25	22	8	20	5	10	0
Volume of shipments	12	33	32	17	16	22	27	23	18	22	11	13	0
Volume of new orders	18	33	27	29	15	25	24	19	18	8	18	13	-9
Backlog of orders	4	16	8	17	2	7	0	6	4	1	2	-3	-11
Number of employees	20	27	23	23	22	10	14	4	8	9	10	8	5
Average employee workweek	4	14	7	6	1	0	4	5	-4	14	0	-3	-11
Prices received for finished product	47	60	66	53	52	51	51	48	48	50	51	53	60
Prices paid for raw materials	82	81	83	76	79	62	67	71	75	70	75	84	84
Capital expenditures	24	27	20	16	16	16	11	16	18	18	12	15	14
New orders for exports	3	13	6	3	13	13	7	12	9	12	18	8	11
Supplier delivery time	7	5	6	14	9	9	10	12	7	6	5	10	11
Inventories: Materials	16	4	31	25	17	10	10	6	-1	2	0	4	0
Inventories: Finished goods	27	0	15	16	6	8	7	0	-5	-3	0	10	6
<b>Expected in Six Months (seasonally adjusted)</b>													
Production	37	39	29	29	27	25	27	28	27	26	18	26	6
Volume of shipments	42	39	26	28	28	22	27	29	25	30	17	30	11
Volume of new orders	33	40	20	22	21	19	21	23	19	25	23	21	12
Backlog of orders	15	17	11	11	11	3	10	12	5	8	13	12	9
Number of employees	24	20	13	17	17	13	12	10	11	20	18	11	10
Average employee workweek	15	12	3	8	5	1	3	7	-2	-1	0	0	-7
Prices received for finished product	34	34	42	39	37	35	30	35	27	32	40	41	49
Prices paid for raw materials	64	55	67	56	63	55	53	51	58	62	61	73	74
Capital expenditures	23	22	20	22	19	16	17	15	19	17	9	19	11
New orders for exports	5	8	14	7	18	14	12	10	13	18	15	21	22
Supplier delivery time	5	4	8	11	6	7	3	8	6	3	4	8	10
Inventories: Materials	1	-14	2	2	11	7	-11	-5	-3	4	-8	5	-6
Inventories: Finished goods	10	-4	4	1	5	0	-15	-1	-2	0	-10	1	-1

Production vs. a Month Ago



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