

# News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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## TENTH DISTRICT MANUFACTURING SURVEY CONTRACTED FURTHER *Federal Reserve Bank of Kansas City Releases February Manufacturing Survey*

KANSAS CITY, Mo. The Federal Reserve Bank of Kansas City released the February Manufacturing Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District manufacturing activity contracted further in February, and factories' expectations weakened somewhat.

"Factory activity fell more sharply in February than in previous months. Some contacts cited disruptions due to bad weather, and many firms noted that possible federal spending cuts were hurting business," said Wilkerson. However, capital spending plans for later in the year improved considerably."

A summary of the February survey is attached. Results from past surveys and release dates for future surveys can be found at [www.kansascityfed.org/research/indicatorsdata/mfg](http://www.kansascityfed.org/research/indicatorsdata/mfg).

The Federal Reserve Bank of Kansas City serves the Tenth Federal Reserve District, encompassing the western third of Missouri; all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming; and the northern half of New Mexico. As part of the nation's central bank, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing financial services to depository institutions. More information is available online at [www.kansascityfed.org](http://www.kansascityfed.org).

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## TENTH DISTRICT MANUFACTURING SUMMARY

Tenth District manufacturing activity contracted further in February, and factories' expectations weakened somewhat. Some contacts noted disruptions in shipments due to bad weather, and many firms expressed concern about possible direct and indirect impacts on orders should federal spending cuts occur with sequestration. Most price indexes were little changed.

The month-over-month composite index was -10 in February, down from -2 in January and -1 in December (Tables 1 & 2, Chart). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Manufacturing activity declined at both durable and non-durable goods-producing plants, with the exception of chemicals and technology products. Most other month-over-month indexes also fell. The production index decreased from -3 to -11, and the shipments, new orders, and order backlog indexes also declined to their lowest levels since early 2009. In contrast, the employment index improved from -8 to 2, and the new orders for exports index climbed towards positive territory. The raw materials inventory index decreased from -4 to -8, while the finished goods inventory index increased slightly.

The majority of year-over-year factory indexes fell further, with several indexes continuing to post two-year lows. The composite year-over-year index decreased from 1 to -4, its lowest level since March 2010, and the shipments, new orders, and order backlog indexes also eased. The employment index inched lower but remained positive, and the production index edged up from -9 to -7. Both inventory indexes fell after rising last month.

Future factory indexes were mixed, although most indexes remained in positive territory. The future composite index moderated from 7 to 4, and the future production, new orders, and employment indexes also eased slightly. Both future inventory indexes also fell further into negative territory. On the positive side, the future capital expenditures index jumped from 3 to 18 after falling for three straight months, and the future new orders for exports index also edged higher. The future order backlog index rose modestly from 2 to 5, while the future shipments index was unchanged.

Most price indexes recorded little change from the previous month. The month-over-month raw materials price index rose from 23 to 25, while the finished goods price index eased somewhat. The year-over-year raw materials index increased from 50 to 60, while the finished goods index moved slightly lower. The future raw materials price index increased modestly from 47 to 51, while the future finished goods price index was unchanged, indicating the same share of firms plan to pass recent cost increases through to customers.

## **SELECTED COMMENTS**

“We were closed 1-1/2 days last week due to weather, and that may well happen again today and tomorrow. That is putting us behind last year – otherwise, we would probably show a slight increase. We have enough outbound freight on our loading dock to be even with last year, but truck lines aren’t running.”

“Very concerned about the reduction in military spending which will likely happen. This could force us to reduce planned capital spending.”

“The uncertainty is holding back capital purchases from many of our fleet customers.”

“Sequestration is causing customers to delay and/or push back orders.”

“Customers are still being cautious about capital spending.”

“We are not sure what the effects of sequestration will be, so as a result, we are delaying nearly all spending and hiring plans.”

“Small business aircraft demand has not fully recovered, although it has improved from the depths of the crisis.”

“Infrastructure spending has historically been a large driver of demand for heavy building materials, and it looks to be stuck at low levels on a long-term basis.”

“We are still struggling to regain ground on overall sales. We are adding more customers but the volume of those sales isn’t overcoming the reduced sales to existing customers.”

**Table 1**  
**Summary of Tenth District Manufacturing Conditions, February 2013**

Plant Level Indicators	February vs. January (percent)*					February vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index <sup>^</sup>	SA Index <sup>**^</sup>	Increase	No Change	Decrease	Diff Index <sup>^</sup>	Increase	No Change	Decrease	Diff Index <sup>^</sup>	SA Index <sup>**^</sup>
Composite Index				-6	-10				-4				7	4
Production	24	46	30	-6	-11	36	20	44	-7	40	35	25	15	12
Volume of shipments	22	44	34	-11	-12	38	19	43	-5	41	36	23	18	14
Volume of new orders	21	40	38	-17	-25	32	22	46	-14	38	39	22	16	15
Backlog of orders	17	52	29	-12	-18	21	41	36	-15	27	51	20	7	5
Number of employees	14	73	13	1	2	38	36	26	12	26	54	20	7	2
Average employee workweek	7	70	22	-15	-14	16	49	33	-17	18	63	18	0	-3
Prices received for finished product	13	81	6	7	5	43	42	14	29	36	54	9	27	26
Prices paid for raw materials	34	61	3	31	25	67	22	7	60	55	36	6	50	51
Capital expenditures						30	44	21	8	31	53	13	18	18
New orders for exports	10	69	10	0	-1	15	58	19	-4	14	65	13	1	1
Supplier delivery time	4	88	7	-4	-6	10	78	10	0	8	81	6	3	1
Inventories:														
Materials	17	59	23	-7	-8	28	35	37	-9	21	50	25	-4	-9
Finished goods	17	60	21	-4	-6	26	41	29	-3	15	57	24	-9	-13

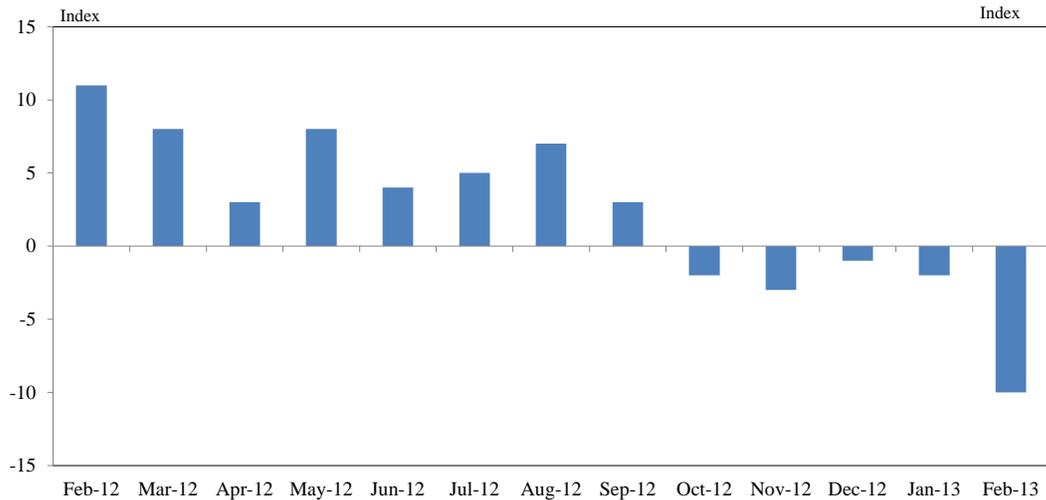
\*Percentage may not add to 100 due to rounding

<sup>^</sup>Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

<sup>\*\*^</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 February survey included 107 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

**Composite Index vs. a Month Ago**



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

	Feb'12	Mar'12	Apr'12	May'12	Jun'12	Jul'12	Aug'12	Sep'12	Oct'12	Nov'12	Dec'12	Jan'13	Feb'13
<b>Versus a Month Ago</b> (seasonally adjusted)													
Composite Index	11	8	3	8	4	5	7	3	-2	-3	-1	-2	-10
Production	18	11	0	14	11	3	7	-1	-3	-2	-5	-3	-11
Volume of shipments	7	13	5	13	10	0	10	-4	-3	-1	-4	-3	-12
Volume of new orders	6	12	-8	8	-6	-2	10	-1	-8	-10	-5	-2	-25
Backlog of orders	9	0	-7	-4	-11	-8	0	-7	-13	-20	-16	-6	-18
Number of employees	9	10	11	7	4	5	3	2	-3	2	-1	-8	2
Average employee workweek	-4	-1	-8	-3	-5	-4	-5	-11	-10	-5	-7	-8	-14
Prices received for finished product	9	3	5	1	-1	1	2	4	7	3	7	7	5
Prices paid for raw materials	33	30	20	13	18	19	26	28	26	24	33	23	25
Capital expenditures	n/a												
New orders for exports	-7	-1	-1	2	-6	-11	-6	-4	-5	-6	-2	-8	-1
Supplier delivery time	9	5	5	9	5	6	6	7	3	-1	3	4	-6
Inventories: Materials	15	1	5	4	5	10	11	6	2	-5	1	-4	-8
Inventories: Finished goods	6	15	0	3	0	7	11	3	3	6	0	-10	-6
<b>Versus a Year Ago</b> (not seasonally adjusted)													
Composite Index	21	24	24	27	24	20	18	11	11	9	7	1	-4
Production	28	31	30	38	32	19	25	12	17	4	-3	-9	-7
Volume of shipments	30	37	35	35	35	18	22	16	22	11	5	-4	-5
Volume of new orders	28	33	28	32	32	23	16	6	10	4	2	-7	-14
Backlog of orders	24	20	20	32	20	10	14	-4	1	-7	-7	-12	-15
Number of employees	17	23	31	28	25	18	20	17	12	22	13	14	12
Average employee workweek	6	4	10	7	7	2	1	5	-2	-8	-8	-11	-17
Prices received for finished product	35	35	41	34	19	35	35	35	30	28	35	31	29
Prices paid for raw materials	57	71	74	66	60	50	49	60	60	58	56	50	60
Capital expenditures	12	15	18	21	21	23	21	17	18	19	20	-3	8
New orders for exports	5	6	-2	9	4	2	2	-4	-2	-5	-4	-11	-4
Supplier delivery time	13	9	7	14	12	12	10	7	10	7	9	-1	0
Inventories: Materials	19	22	25	23	17	26	16	11	5	8	14	6	-9
Inventories: Finished goods	20	13	17	16	11	16	19	12	10	11	17	0	-3
<b>Expected in Six Months</b> (seasonally adjusted)													
Composite Index	18	17	12	16	8	13	16	16	6	5	7	7	4
Production	29	29	26	37	23	23	29	28	13	13	16	15	12
Volume of shipments	32	29	23	39	21	21	28	29	14	14	14	14	14
Volume of new orders	31	32	23	27	11	22	21	24	11	12	13	19	15
Backlog of orders	23	12	8	10	0	4	12	20	0	5	3	2	5
Number of employees	20	21	15	16	13	15	15	16	6	3	1	3	2
Average employee workweek	2	5	-4	4	-1	-1	1	2	-2	-5	-5	3	-3
Prices received for finished product	31	26	18	23	12	25	33	27	23	19	29	26	26
Prices paid for raw materials	54	61	55	47	41	48	45	50	56	42	63	47	51
Capital expenditures	18	19	6	19	17	19	17	13	16	9	7	3	18
New orders for exports	8	7	6	8	4	6	4	3	1	0	-2	0	1
Supplier delivery time	9	6	2	1	4	5	12	6	1	-3	5	-1	1
Inventories: Materials	-2	-4	-6	-1	-11	-1	2	7	-4	1	-3	-3	-9
Inventories: Finished goods	3	5	-2	-2	-5	5	7	5	-6	0	-2	-2	-13