

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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TENTH DISTRICT MANUFACTURING SURVEY CONTRACTED MODESTLY *Federal Reserve Bank of Kansas City Releases January Manufacturing Survey*

KANSAS CITY, Mo. The Federal Reserve Bank of Kansas City released the January 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 modestly again in January, but factories' production expectations remained relatively optimistic for the months ahead.

“Regional factory activity has now edged down for four straight months, as fiscal policy uncertainty continues to weigh on firms' plans, said Wilkerson. On the positive side, expectations for new orders rose quite a bit in January, but hiring and capital spending plans were only modestly positive.”

The January survey incorporates new seasonal adjustment factors, so historical indexes differ slightly from previously-released numbers. The new seasonal factors will be used throughout 2013. Results from past surveys and release dates for future surveys can be found at 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.

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TENTH DISTRICT MANUFACTURING SUMMARY

Tenth District manufacturing activity contracted modestly again in January, but factories' production expectations remained relatively optimistic for the months ahead. Many contacts blamed still-unresolved fiscal policy issues for caution in hiring and spending plans. Most price indexes edged lower, particularly expectations for raw materials prices.

The month-over-month composite index was -2 in January, largely unchanged from readings of -1 in December and -3 in November (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 most durable goods-producing plants, while nondurable producers noted a slight increase overall. Most other month-over-month indexes were below zero but higher than in December. The production index inched higher from -5 to -3, and the shipments, new orders, and order backlog indexes also rose somewhat but stayed in negative territory. In contrast, the employment index fell from -1 to -8, its lowest level since mid-2009, and the new orders for exports index also declined. The raw materials inventory index decreased from 1 to -4, and the finished goods inventory index dropped from 0 to -10.

Most year-over-year factory indexes fell for the second straight month, with several indexes continuing to post two-year lows. The composite year-over-year index decreased from 7 to 1, and the production, shipments, and new orders indexes also declined. The order backlog index decreased from -7 to -12, and the capital spending index dropped to its lowest level since late 2010. On the other hand, the employment index edged slightly higher. Both inventory indexes fell after rising last month.

Future factory indexes were mixed, although most indexes remained at favorable levels. The future composite index was unchanged at 7, and the future shipments index also stayed flat from the previous month. The future production index eased somewhat, and the future order backlog and capital expenditures indexes moved lower but remained positive. The future new orders index rose from 13 to 19, and the future employment and new orders for exports indexes also edged higher. Both future inventory indexes were unchanged at modestly negative levels.

Most price indexes eased after increasing last month. The month-over-month raw materials price index fell from 33 to 23, while the finished goods price index was unchanged. The year-over-year raw materials index was slightly lower, and the finished goods index inched down from 35 to 31. The future raw materials price index dropped from 63 to 47, and the future finished goods price index eased modestly, indicating fewer firms plan to pass recent cost increases through to customers.

SELECTED COMMENTS

“Economic uncertainty has made our customers reluctant to place orders more than a month in advance and it appears most are cutting their inventory on hand which further depresses orders.”

“Since Congress continues to delay making firm decisions we are less optimistic about our ability to expand in Q1 and Q2. We are again delaying decisions until government policy is more certain.”

“Many of our end users are not committing to contracts until they see Congress acting on spending and debt limit issues.”

“Lack of commitment to spending cuts has seriously damaged confidence in our customer base.”

“The health care act is still a large uncertainty for our customers.”

“Some orders were delayed. It appears that the capital budgets that were put on hold are starting to be released.”

“U.S. pipeline projects will suffer in 2013, which will affect us negatively.”

“The ongoing fiscal problems and uncertainty have a negative impact on our outlook for the military portion of our business.”

“The fiscal cliff was a short term issue – we make decisions looking at long term trends. It may have slowed some of our sales on a short term basis, but it was probably just delaying sales that will be made later.”

“Fiscal issues are not truly resolved and we remain cautious relative to all hiring, investment, and other business expansion.”

Table 1
Summary of Tenth District Manufacturing Conditions, January 2013

Plant Level Indicators	January vs. December (percent)*					January vs. Year Ago (percent)*				Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{**^}	Increase	Change	Decrease	Diff Index [^]	Increase	Change	Decrease	Diff Index [^]	SA Index ^{**^}
Composite Index				-3	-2				1				4	7
Production	30	39	31	-1	-3	33	26	41	-9	38	33	28	11	15
Volume of shipments	31	36	33	-2	-3	35	27	38	-4	38	31	30	9	14
Volume of new orders	33	38	29	4	-2	34	26	40	-7	42	29	28	14	19
Backlog of orders	23	45	31	-8	-6	25	37	38	-12	29	38	30	-1	2
Number of employees	9	71	20	-12	-8	40	34	26	14	23	53	22	1	3
Average employee workweek	12	62	25	-12	-8	14	60	25	-11	19	62	17	2	3
Prices received for finished product	11	85	5	6	7	42	46	12	31	27	66	6	21	26
Prices paid for raw materials	29	65	5	24	23	64	20	14	50	53	37	8	45	47
Capital expenditures						24	45	27	-3	22	53	22	0	3
New orders for exports	5	71	12	-8	-8	9	60	19	-11	16	58	14	2	0
Supplier delivery time	5	90	3	2	4	10	78	11	-1	6	82	8	-2	-1
Inventories:														
Materials	22	49	29	-7	-4	34	37	28	6	21	52	25	-4	-3
Finished goods	17	53	26	-9	-10	27	42	27	0	19	56	19	0	-2

*Percentage may not add to 100 due to rounding

[^]Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

^{**^}Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12.

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

Composite Index vs. a Month Ago

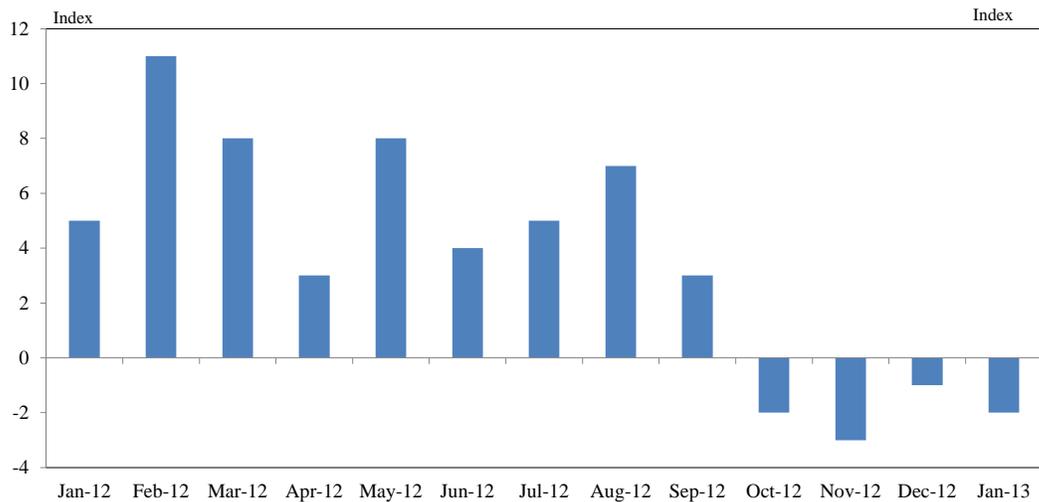


Table2
Historical Manufacturing Survey Indexes

	Jan'12	Feb'12	Mar'12	Apr'12	May'12	Jun'12	Jul'12	Aug'12	Sep'12	Oct'12	Nov'12	Dec'12	Jan'13
Versus a Month Ago (seasonally adjusted)													
Composite Index	5	11	8	3	8	4	5	7	3	-2	-3	-1	-2
Production	9	18	11	0	14	11	3	7	-1	-3	-2	-5	-3
Volume of shipments	8	7	13	5	13	10	0	10	-4	-3	-1	-4	-3
Volume of new orders	6	6	12	-8	8	-6	-2	10	-1	-8	-10	-5	-2
Backlog of orders	4	9	0	-7	-4	-11	-8	0	-7	-13	-20	-16	-6
Number of employees	7	9	10	11	7	4	5	3	2	-3	2	-1	-8
Average employee workweek	-2	-4	-1	-8	-3	-5	-4	-5	-11	-10	-5	-7	-8
Prices received for finished product	12	9	3	5	1	-1	1	2	4	7	3	7	7
Prices paid for raw materials	37	33	30	20	13	18	19	26	28	26	24	33	23
Capital expenditures	n/a												
New orders for exports	9	-7	-1	-1	2	-6	-11	-6	-4	-5	-6	-2	-8
Supplier delivery time	7	9	5	5	9	5	6	6	7	3	-1	3	4
Inventories: Materials	-2	15	1	5	4	5	10	11	6	2	-5	1	-4
Inventories: Finished goods	1	6	15	0	3	0	7	11	3	3	6	0	-10
Versus a Year Ago (not seasonally adjusted)													
Composite Index	15	21	24	24	27	24	20	18	11	11	9	7	1
Production	16	28	31	30	38	32	19	25	12	17	4	-3	-9
Volume of shipments	13	30	37	35	35	35	18	22	16	22	11	5	-4
Volume of new orders	17	28	33	28	32	32	23	16	6	10	4	2	-7
Backlog of orders	13	24	20	20	32	20	10	14	-4	1	-7	-7	-12
Number of employees	11	17	23	31	28	25	18	20	17	12	22	13	14
Average employee workweek	2	6	4	10	7	7	2	1	5	-2	-8	-8	-11
Prices received for finished product	38	35	35	41	34	19	35	35	35	30	28	35	31
Prices paid for raw materials	67	57	71	74	66	60	50	49	60	60	58	56	50
Capital expenditures	8	12	15	18	21	21	23	21	17	18	19	20	-3
New orders for exports	12	5	6	-2	9	4	2	2	-4	-2	-5	-4	-11
Supplier delivery time	10	13	9	7	14	12	12	10	7	10	7	9	-1
Inventories: Materials	19	19	22	25	23	17	26	16	11	5	8	14	6
Inventories: Finished goods	11	20	13	17	16	11	16	19	12	10	11	17	0
Expected in Six Months (seasonally adjusted)													
Composite Index	12	18	17	12	16	8	13	16	16	6	5	7	7
Production	27	29	29	26	37	23	23	29	28	13	13	16	15
Volume of shipments	24	32	29	23	39	21	21	28	29	14	14	14	14
Volume of new orders	18	31	32	23	27	11	22	21	24	11	12	13	19
Backlog of orders	8	23	12	8	10	0	4	12	20	0	5	3	2
Number of employees	16	20	21	15	16	13	15	15	16	6	3	1	3
Average employee workweek	0	2	5	-4	4	-1	-1	1	2	-2	-5	-5	3
Prices received for finished product	27	31	26	18	23	12	25	33	27	23	19	29	26
Prices paid for raw materials	61	54	61	55	47	41	48	45	50	56	42	63	47
Capital expenditures	21	18	19	6	19	17	19	17	13	16	9	7	3
New orders for exports	12	8	7	6	8	4	6	4	3	1	0	-2	0
Supplier delivery time	7	9	6	2	1	4	5	12	6	1	-3	5	-1
Inventories: Materials	-9	-2	-4	-6	-1	-11	-1	2	7	-4	1	-3	-3
Inventories: Finished goods	-11	3	5	-2	-2	-5	5	7	5	-6	0	-2	-2