



# News Release

## Federal Reserve Bank of Kansas City

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Growth in manufacturing activity in the Tenth Federal Reserve District remained somewhat sluggish in October, and plant managers expressed less optimism about near-term output than in previous surveys. However, factory activity was still well above year-ago levels, and capital spending plans remained solid. Materials price pressures continued to ease, but a sizable number of firms planned to continue raising finished goods prices.

A summary of the October 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

Growth in manufacturing activity in the Tenth Federal Reserve District remained somewhat sluggish in October, and plant managers expressed less optimism about near-term output than in previous surveys. However, factory activity was still well above year-ago levels, and capital spending plans remained solid. Materials price pressures continued to ease, but a sizable number of firms planned to continue raising finished goods prices.

The net percentage of firms reporting month-over-month increases in production edged up to 9 in October from 6 in September but remained lower than readings in the spring and summer (Tables 1 & 2, Chart). Modest gains were posted among both durable- and nondurable-goods producing plants during the month. The year-over-year production index also edged higher, from 33 to 35, to remain relatively high by historical standards. The future production index, on the other hand, fell from 25 to 20, its lowest reading in over four years.

Although sample sizes make it difficult to draw firm conclusions about individual states, the data available suggest that production remained flat to down slightly in Colorado, western Missouri, Oklahoma, and Wyoming. However, activity was still well above year-ago levels in all district states and was expected to expand over the next six months in all district states.

Most other month-over-month indexes of factory activity either eased or continued to post modest readings in October. The shipments index rose from 5 to 11, but the new orders index eased from 13 to 11 and the backlog index dropped into negative territory for the first time in over a year. The employment index dropped from 12 to 5, and the inventory indexes also both fell.

On the other hand, other year-over-year indexes in the survey generally remained solid in October. The shipments and new orders indexes were still in the thirties, and the employment and capital spending indexes were in the twenties. Indexes for backlogs and inventories fell somewhat but remained in double digits.

Plant managers' expectations for future factory activity were weaker than in recent months, though largely similar to readings posted back in June. The future shipments index fell from 31 to 20, and the future new orders index dropped from 26 to 10. The future backlog and employment indexes also eased. On a positive note, the future capital spending index remained relatively high at 25, a reading surpassed only twice in the past year and a half.

The price indexes in the survey revealed further moderation in materials price pressures but continued expectations of finished goods price increases. The month-over-month raw materials price index posted another sizable drop, from 38 to 25, and the month-over-month finished goods price index also eased slightly. However, the year-over-year price indexes were virtually unchanged from September, and the future price indexes both edged higher. The future finished goods price index was similar to readings earlier in the year, when materials price pressures were much greater.

Table1

## Summary of Tenth District Manufacturing Conditions, October 2006

Plant Level Indicators	October vs. September (percent) <sup>1</sup>					October vs. Year Ago (percent) <sup>1</sup>				Expected in Six Months (percent) <sup>1</sup>				
	No		Diff	SA	Increase	No		Diff	Increase	No		Diff	SA	
	Increase	Change	Decrease	Index <sup>2</sup>		Index <sup>3</sup>	Increase	Change		Decrease	Index <sup>2</sup>	Increase	Change	Decrease
Production	33	45	20	13	9	58	17	23	35	42	33	22	20	20
Volume of shipments	35	39	24	10	11	58	16	23	34	42	34	21	20	20
Volume of new orders	35	40	22	13	11	57	22	18	39	36	37	23	12	10
Backlog of orders	24	41	32	-7	-8	39	36	19	19	23	52	20	2	3
Number of employees	29	47	23	6	5	48	27	23	25	30	47	21	9	6
Average employee workweek	21	64	14	7	5	34	44	19	14	18	58	21	-3	-2
Prices received for finished product	14	82	2	12	12	70	23	4	65	36	58	4	32	34
Prices paid for raw materials	37	57	5	31	25	85	9	4	80	60	33	5	54	52
Capital expenditures						37	42	16	20	34	51	8	26	25
New orders for exports	10	73	5	4	4	21	63	5	15	14	70	5	9	8
Supplier delivery time	11	81	3	8	8	19	67	8	11	11	79	4	6	4
Inventories:														
Materials	26	55	18	8	6	33	44	19	14	22	54	22	0	-2
Finished goods	21	52	23	-1	-5	28	47	18	10	19	54	21	-1	-3

<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.

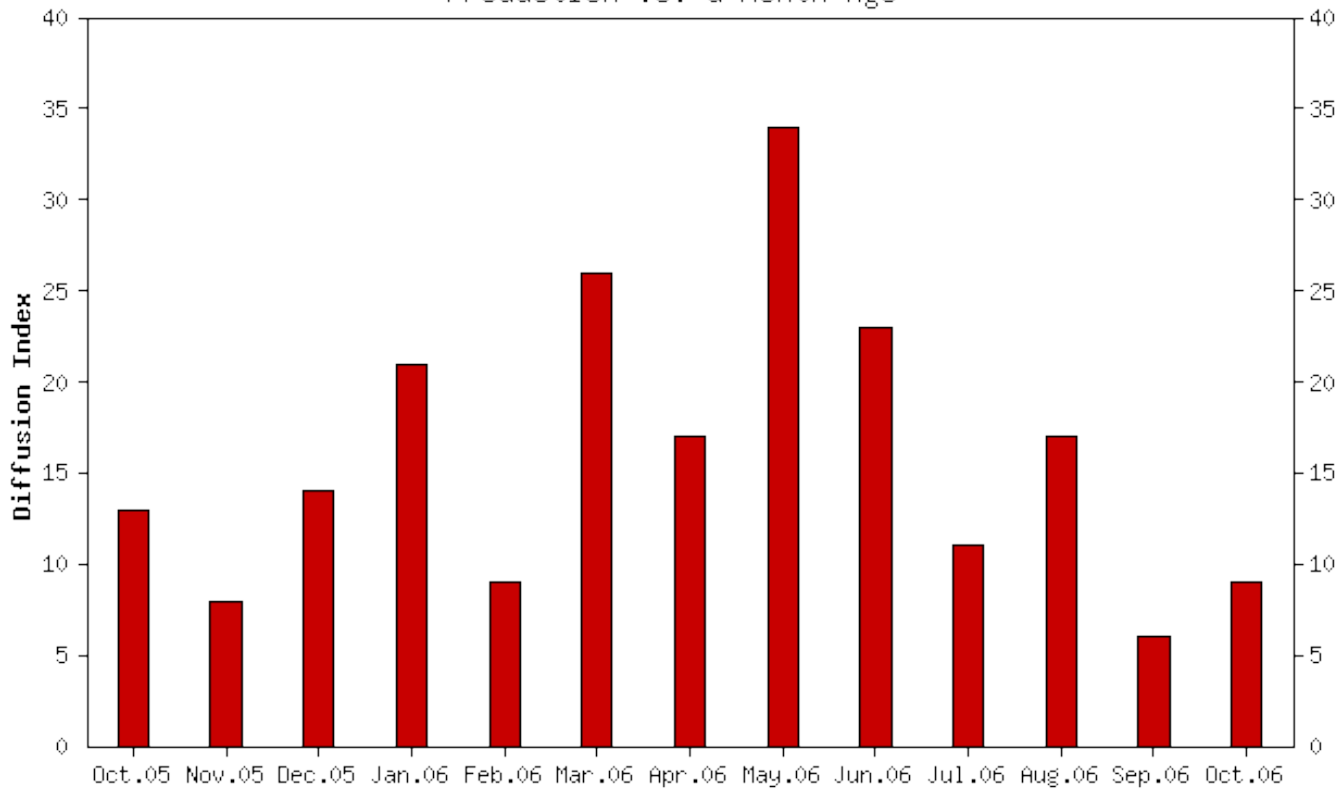
<sup>3</sup>Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12.

Note: The October survey included 121 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

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

	Oct'05	Nov'05	Dec'05	Jan'06	Feb'06	Mar'06	Apr'06	May'06	Jun'06	Jul'06	Aug'06	Sep'06	Oct'06
<b>Versus a Month Ago (seasonally adjusted)</b>													
Production	13	8	14	21	9	26	17	34	23	11	17	6	9
Volume of shipments	12	1	5	16	-4	12	9	30	20	7	16	5	11
Volume of new orders	16	13	13	19	10	21	25	31	22	8	21	13	11
Backlog of orders	16	10	12	9	13	2	9	9	12	8	3	10	-8
Number of employees	11	9	7	14	15	16	18	14	21	8	-2	12	5
Average employee workweek	8	2	15	6	1	8	15	12	8	2	6	1	5
Prices received for finished product	17	16	18	19	17	13	18	15	25	21	17	16	12
Prices paid for raw materials	51	45	45	36	38	35	47	54	57	48	48	38	25
Capital expenditures	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
New orders for exports	6	10	5	10	4	6	5	8	5	4	4	2	4
Supplier delivery time	11	11	8	7	8	9	14	13	18	18	9	0	8
Inventories: Materials	1	6	16	13	14	11	10	17	21	9	7	14	6
Inventories: Finished goods	2	7	13	17	17	14	10	4	17	3	0	6	-5
<b>Versus a Year Ago (not seasonally adjusted)</b>													
Production	36	38	26	48	37	39	39	54	47	35	33	33	35
Volume of shipments	38	40	26	43	31	33	33	43	42	37	32	37	34
Volume of new orders	41	40	32	54	30	35	43	46	40	34	34	33	39
Backlog of orders	25	32	31	29	16	24	28	24	29	27	22	22	19
Number of employees	20	19	20	22	24	24	24	25	28	27	17	14	25
Average employee workweek	20	16	21	20	13	19	15	17	14	20	10	2	14
Prices received for finished product	50	45	58	47	52	54	58	57	60	58	52	66	65
Prices paid for raw materials	83	70	85	69	70	78	83	80	83	82	74	79	80
Capital expenditures	31	29	33	31	22	30	25	35	25	20	23	21	20
New orders for exports	16	14	16	13	9	17	16	14	14	16	16	7	15
Supplier delivery time	19	15	14	18	10	13	16	15	29	26	14	11	11
Inventories: Materials	15	22	19	11	27	24	24	27	35	17	21	22	14
Inventories: Finished goods	10	14	15	16	22	19	14	21	25	4	15	14	10
<b>Expected in Six Months (seasonally adjusted)</b>													
Production	23	29	33	29	47	46	37	36	23	37	27	25	20
Volume of shipments	25	31	31	28	51	31	30	35	18	45	31	31	20
Volume of new orders	24	29	26	45	41	30	32	41	10	35	22	26	10
Backlog of orders	10	10	9	22	17	8	15	16	-1	23	14	9	3
Number of employees	19	1	15	31	14	23	23	19	20	32	11	14	6
Average employee workweek	3	0	3	6	17	7	3	7	0	6	11	0	-2
Prices received for finished product	34	37	44	38	29	36	33	34	37	35	23	32	34
Prices paid for raw materials	69	58	63	58	55	59	67	65	71	61	58	45	52
Capital expenditures	21	21	30	26	17	20	14	8	7	22	21	25	25
New orders for exports	11	7	14	8	9	12	12	10	10	13	9	9	8
Supplier delivery time	10	8	10	12	4	8	2	0	20	11	8	0	4
Inventories: Materials	3	9	3	5	16	3	2	5	12	10	2	1	-2
Inventories: Finished goods	4	4	4	4	12	2	2	6	7	3	-4	3	-3

Production vs. a Month Ago



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