

News Release

Federal Reserve Bank of Kansas City

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> FOR RELEASE Monday, May 9, 2005 EMBARGOED FOR 11:00 A.M. EST

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Manufacturing activity in the Tenth Federal Reserve District expanded less rapidly in April than in the previous two months, but expectations for future activity remained strong. Many firms continued to raise output prices even as growth in materials prices eased somewhat, and further increases in output prices are expected in the months ahead.

A summary of the April survey is attached to this press release.

The Tenth Federal Reserve District encompasses Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The April manufacturing survey, as well as background information and results from past surveys, can be found on the Federal Reserve Bank of Kansas City's web site, http://www.kansascityfed.org.

Survey of Tenth District Manufacturing

by Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District expanded less rapidly in April than in the previous two months, but expectations for future activity remained strong. Many firms continued to raise output prices even as growth in materials prices eased somewhat, and further increases in output prices are expected in the months ahead. All of the month-over-month indexes in the survey rose for the third month in a row, but the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons.

The net percentage of firms reporting year-over-year increases in production fell from 44 in March to 32 in April, the lowest reading since March 2004 (Tables 1 & 2). Even at 32, however, the index was relatively high by historical standards. The production index fell somewhat among both durable-goods-producing plants and nondurable-goods-producing plants, though the indexes for both types of firms remained well above zero. While sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production remained above year-ago levels in all district states.

Other year-over-year indexes of factory activity were mixed. The shipments index fell for the fourth month in a row, dropping from 34 to 24, its lowest reading since late 2003. Several firms noted that they were delaying some shipments to ensure full truckloads and thus save on fuel costs. Like the production and shipments indexes, the new orders index also fell to its lowest level in over a year. More positively, the employment index edged up for the second month in a row, and the capital spending index remained quite high at 29. The inventory indexes both increased nearly 10 points. The index for raw materials inventories rose to 33, its highest reading on record. Similarly, the index for finished goods inventories rose to a ten-year high, perhaps due to the delaying of shipments by some firms.

The gap between the year-over-year price indexes closed considerably in April. The finished goods price index rose to 59, surpassing its previous all-time peak of 55 set in January. Meanwhile, the raw materials price index fell from a record 86 in March to 79 in April. The gap between the two indexes was the smallest in nearly three years, suggesting a greater ability of firms to pass cost increases through to customers.

Plant managers' expectations for future factory activity improved in April after falling somewhat in March. The six-month-ahead production index rose from 33 to 41. This level was below the high readings of January and February but very similar to the second half of 2004 and still quite high by historical standards. The future shipments index also rose solidly, while the future new orders index remained similar to its high readings of the past year. On a less upbeat note, the future employment and capital spending indexes both fell slightly. Indeed, the future employment index was the lowest since mid-2003. Finally, similar to the year-over-year price indexes, the gap between the future price indexes narrowed somewhat, suggesting some firms expect continued improvement in their ability to past cost increases through to customers.

Table1
Summary of Tenth District Manufacturing Conditions, April 2005

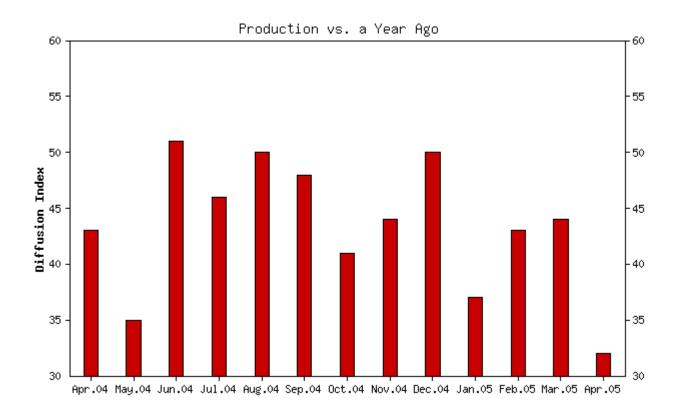
April vs. March April vs. Year Ago **Expected in Six Months** (percent, not seasonally adjusted) (percent) (percent, not seasonally adjusted) No Nο Nο Increase Change Decrease Index Increase Change Decrease Index Increase Change Decrease Index **Plant Level Indicators** Production Volume of shipments Volume of new orders **Backlog of orders** Number of employees Average employee workweek Prices received for finished product Prices paid for raw materials Capital expenditures New orders for exports Supplier delivery time Inventories: Materials Finished goods -2

^{*} The diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicator from the percentage of those reporting increases. Index values greater than zero generally suggest expansion, while values less than zero indicate contraction. When index values are closer to 100, the increases among respondents are more widespread. When index values are closer to -100, decreases are more widespread. Note: The April survey included 98 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

nistorical manufacturing Survey indexes													
	Apr'04	May'04	Jun'04	Jul'04	Aug'04	Sep'04	Oct'04	Nov'04	Dec'04	Jan'05	Feb'05	Mar'05	Apr'05
Versus a Month Ago (not seasonally adjusted)													
Production	28	23	26	20	15	20	20	6	2	18	32	44	20
Volume of shipments	36	14	25	14	25	23	3	4	-1	11	25	40	22
Volume of new orders	34	20	23	21	15	19	18	8	-1	22	26	38	29
Backlog of orders	28	22	4	13	-6	7	3	-3	-7	9	8	13	13
Number of employees	14	18	16	11	12	13	22	4	5	-4	15	14	11
Average employee workweek	17	15	16	21	17	6	12	5	-5	2	8	10	1
Prices received for finished product	28	22	9	16	14	16	15	9	12	18	20	21	22
Prices paid for raw materials	67	56	54	47	52	46	53	43	35	46	49	53	38
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	9	0	1	1	-6	0	3	5	6	1	6	10	5
Supplier delivery time	27	16	6	16	17	22	13	10	10	14	9	12	8
Inventories: Materials	15	13	-2	1	13	11	12	5	-5	5	8	11	21
Inventories: Finished goods	1	9	0	4	11	6	17	1	-2	7	11	7	11
Versus a Year Ago													
Production	43	35	51	46	50	48	41	44	50	37	43	44	32
Volume of shipments	45	39	46	49	55	51	42	47	53	47	42	34	24
Volume of new orders	52	45	47	51	52	50	42	44	52	45	45	42	31
Backlog of orders	31	33	28	37	27	31	23	30	29	34	31	26	28
Number of employees	19	19	22	15	25	27	25	28	30	18	15	18	20
Average employee workweek	24	21	37	30	29	28	21	17	23	29	15	11	12
Prices received for finished product	37	34	34	42	37	38	41	40	40	55	54	51	59
Prices paid for raw materials	82	75	71	82	73	72	77	74	76	81	83	86	79
Capital expenditures	22	22	23	17	16	30	19	21	18	20	26	30	29
New orders for exports	9	3	2	5	8	7	6	8	12	11	18	16	14
Supplier delivery time Inventories: Materials	26 5	20 16	22 9	30 6	24 17	35 19	23 20	19 18	18 10	24 25	22 15	26 24	23 33
	3	10	9	0	17	19	20	10	10	25	13	24	33
Inventories: Finished goods	-2	3	1	-3	9	13	12	16	15	25	17	17	25
Expected in Six Months (not seasonally adjusted)													
Production	46	36	48	40	39	39	39	38	41	46	48	33	41
Volume of shipments	53	35	44	36	40	38	35	43	41	44	50	33	42
Volume of new orders	46	28	47	36	39	38	37	44	43	41	41	42	40
Backlog of orders	26	17	29	16	9	17	20	26	28	24	18	19	22
Number of employees	28	18	16	15	30	23	26	23	21	16	23	14	11
Average employee workweek	12	5	13	18	14	8	8	6	15	21	10	4	9
Prices received for finished product	39	28	28	31	20	30	30	36	34	36	42	35	39
Prices paid for raw materials	65	57	49	61	55	54	59	59	56	60	61	63	56
Capital expenditures	34	25	23	18	19	25	25	24	20	23	24	30	25
New orders for exports	14	8	7	5	14	10	13	13	12	23	22	7	12
Supplier delivery time	11	13	1	11	14	14	16	8	5	9	6	9	13
Inventories: Materials	1	5	-6	-2	11	-5	4	-1	-1	5	1	7	7
Inventories: Finished													

Inventories: Finished



Federal Reserve Bank of Kansas City Manufacturing Survey Home Page