



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Great Plains and Rocky Mountain region encompassed by Tenth Federal Reserve District expanded solidly in August. Expectations for future activity also improved during August, suggesting that firms have become more confident the solid sales of the last two months will continue.

A summary of the August 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 August 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.kc.frb.org>

Survey of Tenth District Manufacturers

by Chad R. Wilkerson

Manufacturing activity in the Tenth Federal Reserve District expanded solidly in August. Production rose back above year-ago levels, and new orders remained strong. In addition, factory employment and capital spending showed some continued signs of improvement, and expectations for future activity increased. Production versus a month ago also rose for the eighth straight month, but the monthly data are not seasonally adjusted, so caution must be taken in basing analyses on month-to-month comparisons. Until several years of data are available for seasonal adjustment, this report will focus primarily on changes in activity versus a year ago.

The net percentage of firms reporting year-over-year increases in production rose to 8 in August, up from -7 in July (Tables 1 & 2). Production improved markedly at both durable- and nondurable-goods-producing plants during the month. While sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production remained slightly weaker than a year ago in Colorado and northern New Mexico, but was at or above year-ago levels in the rest of the district.

In addition to the sizable increase in the production index in August, several other important year-over-year indexes added to moderate gains made in July. The shipments, new orders, employment, and workweek indexes all rose at least 5 points for the second month in a row. Indeed, the increases in employment and workweek pushed those indexes to their highest levels since 2000, although the employment index still remained slightly negative and the workweek index was only modestly positive. The capital expenditures index also edged back up to year-ago levels for the first time since last fall, and the index for new orders for exports was above zero for the first time since January. Moreover, the index for inventories of finished goods fell somewhat, which could add an extra boost to production in coming months as firms seek to replenish stock levels.

The year-over-year price indexes both increased slightly in August. The finished goods price index rose to 1, its first positive reading since early 2002, while the raw materials price index rose to 37 after holding steady at around 30 in recent months. The large gap remaining between the two price indexes indicates that firms are still having difficulties passing cost increases through to customers. However, the positive reading for the finished goods index also suggests firms' price-cutting may finally be coming to an end.

In addition to stronger readings for nearly all year-over-year indexes, expectations for future factory activity in the district improved in August as well. The future production index edged up for the second straight month, and the future shipments index rose moderately from June and July's readings. In addition, the future new orders and employment indexes jumped considerably. The future new orders index rose to 40 in August after falling to 21 in July, suggesting that firms have become more confident that the solid sales of the last two months will continue. Likewise, the future employment index surged to 23, its highest level in three-and-a-half years. The future capital spending index also rose slightly but was not considerably different from readings from the previous four months, suggesting investment could remain relatively sluggish for the remainder of the year. The future price indexes both rose in August after easing in July. Expectations for a continued gap between the price indexes suggest firms still doubt their ability to pass cost increases through to customers, at least in the near future.

Table 1

Summary of Tenth District Manufacturing Conditions, August 2003

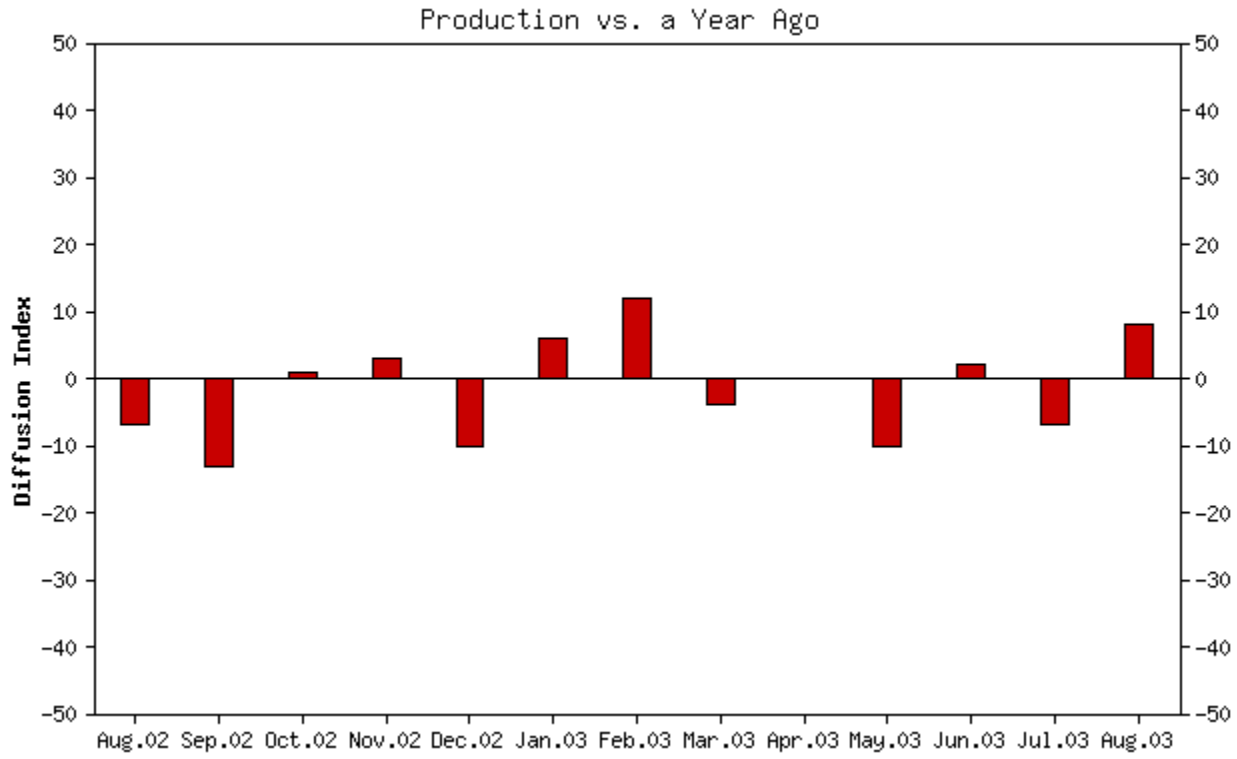
	August vs. July (percent, not seasonally adjusted)				August vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
Plant Level Indicators												
Production	41	35	21	20	40	23	32	8	55	24	18	37
Volume of shipments	39	35	23	16	41	23	30	11	54	26	16	38
Volume of new orders	40	37	18	22	49	18	27	22	53	29	13	40
Backlog of orders	35	41	18	17	28	40	25	3	31	50	13	18
Number of employees	20	64	11	9	28	31	36	-8	37	45	14	23
Average employee workweek	30	53	12	18	25	53	16	9	23	59	12	11
Prices received for finished product	8	75	12	-4	25	45	24	1	24	58	14	10
Prices paid for raw materials	21	71	3	18	49	34	12	37	35	58	3	32
Capital expenditures					26	40	26	0	28	53	13	15
New orders for exports	13	67	6	7	18	61	7	11	20	60	6	14
Supplier delivery time	4	86	5	-1	5	80	9	-4	7	83	5	2
Inventories:												
Materials	15	52	29	-14	23	38	34	-11	22	50	22	0
Finished goods	15	54	26	-11	20	40	32	-12	21	53	18	3

* 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 August survey included 105 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

	Aug'02	Sep'02	Oct'02	Nov'02	Dec'02	Jan'03	Feb'03	Mar'03	Apr'03	May'03	Jun'03	Jul'03	Aug'03
Versus a Month Ago (not seasonally adjusted)													
Production	13	3	13	-2	-20	14	8	11	15	1	15	8	20
Volume of shipments	7	13	5	1	-12	11	1	19	19	6	22	7	16
Volume of new orders	14	4	13	2	-16	11	16	21	16	7	15	24	22
Backlog of orders	-1	-14	-3	-4	-26	-8	-1	2	-2	0	-1	5	17
Number of employees	-5	-5	-9	-10	-18	-11	-5	-17	-10	-1	-2	3	9
Average employee workweek	-1	4	4	-3	-19	4	12	1	-1	-4	-2	4	18
Prices received for finished product	-9	-5	-12	-10	-9	0	-2	-9	-7	-7	-3	-5	-4
Prices paid for raw materials	17	16	9	9	11	12	21	20	9	7	12	8	18
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	-7	-4	1	-5	-3	1	-6	5	-8	2	4	6	7
Supplier delivery time	6	3	-1	-3	2	2	-3	3	1	0	-2	0	-1
Inventories: Materials	11	-13	-12	0	-17	-1	-10	6	-7	-25	-18	-6	-14
Inventories: Finished goods	4	-2	-2	-1	-18	-8	-4	3	-8	0	-10	-12	-11
Versus a Year Ago													
Production	-7	-13	1	3	-10	6	12	-4	0	-10	2	-7	8
Volume of shipments	-9	-9	0	9	-12	5	11	-6	9	-10	1	6	11
Volume of new orders	-3	-13	6	9	-6	4	24	4	7	-2	6	16	22
Backlog of orders	-17	-13	-8	-5	-13	0	11	-6	-7	-13	-10	-3	3
Number of employees	-30	-31	-29	-13	-37	-27	-32	-21	-29	-33	-30	-17	-8
Average employee workweek	-15	-10	-6	-5	-15	-2	1	-7	-20	-13	-11	-1	9
Prices received for finished product	-6	-8	-22	-12	-8	-11	-3	-7	-2	-7	-4	-5	1
Prices paid for raw materials	33	31	36	27	33	23	39	30	28	32	31	31	37
Capital expenditures	-7	-24	-12	0	-9	-15	-15	-8	-1	-4	-12	-3	0
New orders for exports	-4	-9	1	0	-1	2	-3	-1	-11	0	-5	-5	11
Supplier delivery time	3	1	-1	-4	0	-4	-11	-4	-2	-1	-5	-3	-4
Inventories: Materials	-7	-7	9	-4	-13	-15	-16	-1	-6	-26	-17	-14	-11
Inventories: Finished goods	-5	1	9	-2	-1	0	-10	-1	-4	-9	-5	-5	-12
Expected in Six Months (not seasonally adjusted)													
Production	25	25	34	35	32	38	33	33	36	37	32	35	37
Volume of shipments	24	20	35	39	31	44	32	40	38	35	28	28	38
Volume of new orders	27	19	36	34	30	35	38	37	36	36	36	21	40
Backlog of orders	11	6	10	19	15	16	22	16	19	23	23	24	18
Number of employees	12	3	11	15	8	14	17	15	5	9	7	5	23
Average employee workweek	4	1	8	12	8	20	10	13	7	20	8	8	11
Prices received for finished product	4	-7	-12	3	-5	4	11	-3	7	11	5	3	10
Prices paid for raw materials	36	20	15	19	25	24	25	20	22	25	27	17	32
Capital expenditures	8	-3	4	8	1	2	9	3	13	13	16	12	15
New orders for exports	5	-2	4	-1	-4	10	5	4	-2	9	6	5	14
Supplier delivery time	10	5	-4	-2	-2	-1	9	6	7	12	-3	5	2
Inventories: Materials	-3	-8	-3	-11	-16	-14	-9	-6	0	-12	-14	-8	0
Inventories: Finished goods	7	-8	0	-14	-16	-5	-9	-4	5	-11	-9	0	3



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