News Release

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FOR RELEASE Monday, March 10, 2003
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Manufacturing activity in the Tenth Federal Reserve District showed continued signs of improvement in February, but firms were reluctant to add workers or increase capital spending. As in recent surveys, optimism about activity six months down the road remains high.

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

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The February 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 showed continued signs of improvement in February, but firms were still reluctant to add workers or increase capital spending. Production rose further above year-ago levels, new orders jumped, and expectations for production later in the year remained high. Production versus a month ago posted a smaller gain than in January, 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 12 in February, up from 6 in January and -10 in December (Tables 1 & 2). Durable-goods producing plants again reported higher levels of production than a year ago, and activity at nondurable-goods producing plants rebounded after falling below year-ago levels in December and January. Although sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production was above year-ago levels except in western Missouri, where manufacturing remains mired in a slump.

Like production, several other year-over-year indexes of factory activity improved in February. The shipments index rose about the same as the production index and the new orders index jumped considerably, reaching its highest level in three years. The sharp rise in new orders also pushed the backlog of orders well above year-ago levels. In contrast to new orders and shipments, the indexes for employment and capital expenditures remained just as negative as in previous months. The index for average employee workweek was also virtually unchanged at about zero.

The year-over-year inventory indexes were both well below zero in February. The index for inventories of raw materials was similar to the December and January readings, as firms were likely wary about the near-term outlook. Meanwhile, the index for inventories of finished goods fell after hovering around year-ago levels in the previous three months. These low levels of finished goods inventories bodes well for future production activity if demand strengthens in coming months.

The gap between input and output prices widened in February. Rising prices for petroleum and petroleum-based products pushed the index for prices paid for raw materials to a two-year high. The index for prices received for finished products also increased. However, the increase was smaller than for raw materials prices and the index was still below zero, suggesting firms' profits were being squeezed.

As in recent surveys, optimism about activity six months down the road remains high. The future production index fell slightly but remained similar to readings from the past four months. Expectations for future shipments and new orders were also around the readings of previous months. The future indexes for employment and capital spending improved somewhat, reaching their highest levels since last summer. As for prices, firms continue to expect raw materials prices to rise during the year, but not any more so than in previous surveys. Meanwhile, expectations for finished goods prices continued to firm, suggesting manufacturers expect to have somewhat more success passing along cost increases to customers.

Table1

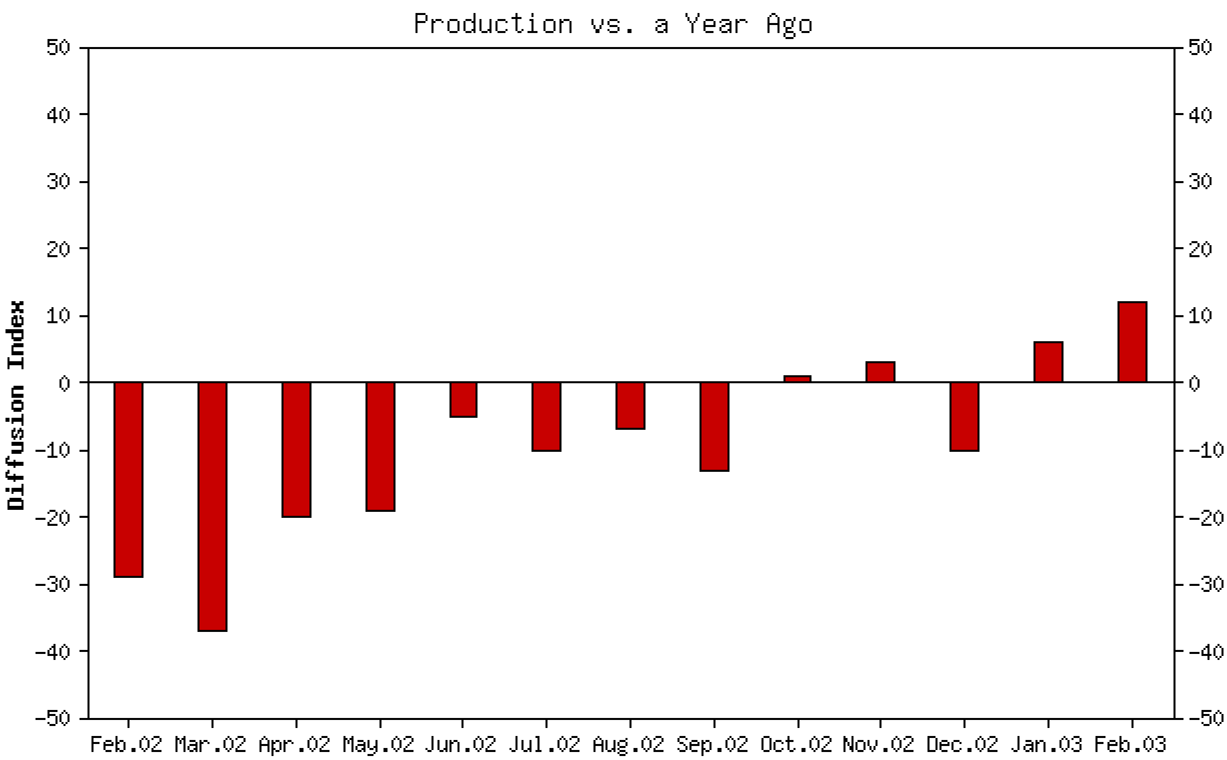
Summary of Tenth District Manufacturing Conditions, February 2003

	February vs. January (percent, not seasonally adjusted)				February vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
Plant Level Indicators	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
Production	34	39	26	8	42	26	30	12	52	26	19	33
Volume of shipments	32	35	31	1	45	19	34	11	53	23	21	32
Volume of new orders	39	36	23	16	50	21	26	24	50	36	12	38
Backlog of orders	25	46	26	-1	37	34	26	11	37	45	15	22
Number of employees	14	64	19	-5	13	40	45	-32	32	48	15	17
Average employee workweek	25	60	13	12	20	58	19	1	24	59	14	10
Prices received for finished product	7	81	9	-2	25	45	28	-3	24	60	13	11
Prices paid for raw materials	25	68	4	21	51	36	12	39	34	54	9	25
Capital expenditures					14	53	29	-15	24	57	15	9
New orders for exports	8	70	14	-6	12	64	15	-3	13	71	8	5
Supplier delivery time	4	85	7	-3	4	78	15	-11	13	80	4	9
Inventories:												
Materials	14	60	24	-10	20	42	36	-16	20	50	29	-9
Finished goods	17	59	21	-4	21	43	31	-10	20	48	29	-9

* 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 February survey included 82 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

	Feb'02	Mar'02	Apr'02	May'02	Jun'02	Jul'02	Aug'02	Sep'02	Oct'02	Nov'02	Dec'02	Jan'03	Feb'03
Versus a Month Ago (not seasonally adjusted)													
Production	3	24	18	19	6	8	13	3	13	-2	-20	14	8
Volume of shipments	-7	33	13	29	9	6	7	13	5	1	-12	11	1
Volume of new orders	-3	27	16	22	8	4	14	4	13	2	-16	11	16
Backlog of orders	-8	4	-3	-3	-15	-4	-1	-14	-3	-4	-26	-8	-1
Number of employees	-9	2	1	0	8	-3	-5	-5	-9	-10	-18	-11	-5
Average employee workweek	7	6	-2	3	0	0	-1	4	4	-3	-19	4	12
Prices received for finished product	-8	0	-3	-8	-11	-6	-9	-5	-12	-10	-9	0	-2
Prices paid for raw materials	8	17	21	19	17	22	17	16	9	9	11	12	21
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	8	6	3	-4	1	-7	-4	1	-5	-3	1	-6
Supplier delivery time	5	10	4	5	6	2	6	3	-1	-3	2	2	-3
Inventories: Materials	-19	-4	-11	4	-13	-1	11	-13	-12	0	-17	-1	-10
Inventories: Finished goods	5	3	0	9	-10	8	4	-2	-2	-1	-18	-8	-4
Versus a Year Ago													
Production	-29	-37	-20	-19	-5	-10	-7	-13	1	3	-10	6	12
Volume of shipments	-27	-37	-19	-11	-13	-7	-9	-9	0	9	-12	5	11
Volume of new orders	-29	-36	-12	1	-13	-6	-3	-13	6	9	-6	4	24
Backlog of orders	-24	-23	-25	-22	-24	-22	-17	-13	-8	-5	-13	0	11
Number of employees	-46	-41	-37	-46	-28	-27	-30	-31	-29	-13	-37	-27	-32
Average employee workweek	-29	-22	-34	-20	-18	-13	-15	-10	-6	-5	-15	-2	1
Prices received for finished product	6	-6	-5	-7	-13	-8	-6	-8	-22	-12	-8	-11	-3
Prices paid for raw materials	23	24	18	11	26	32	33	31	36	27	33	23	39
Capital expenditures	-36	-39	-30	-28	-21	-7	-7	-24	-12	0	-9	-15	-15
New orders for exports	-12	-10	-7	-3	-6	-6	-4	-9	1	0	-1	2	-3
Supplier delivery time	-2	6	4	3	8	5	3	1	-1	-4	0	-4	-11
Inventories: Materials	-30	-27	-20	-18	-26	-28	-7	-7	9	-4	-13	-15	-16
Inventories: Finished goods	-17	-15	-13	2	-18	-13	-5	1	9	-2	-1	0	-10
Expected in Six Months (not seasonally adjusted)													
Production	32	42	36	15	20	24	25	25	34	35	32	38	33
Volume of shipments	34	45	37	35	24	28	24	20	35	39	31	44	32
Volume of new orders	37	44	36	38	27	36	27	19	36	34	30	35	38
Backlog of orders	18	13	12	32	13	7	11	6	10	19	15	16	22
Number of employees	15	19	21	8	4	4	12	3	11	15	8	14	17
Average employee workweek	3	18	18	11	5	-1	4	1	8	12	8	20	10
Prices received for finished product	6	12	18	12	0	4	4	-7	-12	3	-5	4	11
Prices paid for raw materials	25	30	38	30	27	34	36	20	15	19	25	24	25
Capital expenditures	-7	0	5	12	12	8	8	-3	4	8	1	2	9
New orders for exports	3	13	6	12	8	9	5	-2	4	-1	-4	10	5
Supplier delivery time	5	4	11	8	9	10	10	5	-4	-2	-2	-1	9
Inventories: Materials	-3	4	-2	0	-1	-6	-3	-8	-3	-11	-16	-14	-9
Inventories: Finished goods	3	7	0	11	-2	4	7	-8	0	-14	-16	-5	-9



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