



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Tenth Federal Reserve District strengthened further in May and expectations for factory activity six months down the road remained generally upbeat. The future employment index fell somewhat, but remained positive for the fifth consecutive month, suggesting job gains will be coming soon

A summary of the May survey is attached to this press release. The Federal Reserve Bank of Kansas City's manufacturing survey takes a snapshot of factory activity in the Tenth District by asking respondents about a variety of manufacturing indicators. From October 1994 to July 2001, the survey was performed quarterly. Starting with the July 2001 release, information about the Tenth District's manufacturing sector is available monthly. Due to the relatively brief history of the monthly survey, however, the data cannot yet be seasonally adjusted, so caution must be taken in basing analysis on month-to-month changes. Until several years of monthly data are available for seasonal adjustment, the attached summary will focus primarily on changes in activity versus a year ago.

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The March 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 strengthened further in May. The volume of new orders rose above year-ago levels for the first time since late 2000, and the volume of shipments also improved. Materials price pressures appeared to be subsiding, and expectations for future factory activity remained upbeat. Production, shipments, and new orders versus a month ago also all showed large increases for the third straight month. However, 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 increases in production from a year ago was -19 in May, virtually unchanged from April but not nearly as negative as earlier in the year (Tables 1 & 2). Production at durable goods-producing plants remained well below year-ago levels, while nondurable goods-producing factories continued to report slightly higher activity than a year ago. While sample sizes make it more difficult to draw firm conclusions about individual states, it appears from the data available that production rose above year-ago levels in Colorado and Kansas but remained subdued in the rest of the district.

Most other year-over-year indicators of factory activity either held steady or improved in May. Like production, the capital expenditures index changed very little in May. The shipments and new orders indexes, on the other hand, rose considerably. In fact, for the first time in a year and a half, more firms reported an increase in new orders from a year ago than reported decreases. One index that actually declined in May was the employment index, which fell back to its survey low reached in February. However, the average employee workweek index rose, as firms have been working existing employees longer rather than hiring new workers in order to achieve the recent increases in activity.

The year-over-year inventory indexes diverged in May. The index for finished goods inventories rose above zero for the first time since late 2000, signifying the increased production occurring at district plants in recent months. At the same time, inventories of raw materials remained well below year-ago levels, suggesting that firms continue to improve their just-in-time inventory management. The year-over-year index for supplier delivery time remained slightly positive for the third month in a row.

The year-over-year price indexes both fell in May. The index for prices paid for raw materials dropped from 18 to 11. The index for prices received for finished products also edged down and remained considerably lower than the materials prices index, suggesting that many firms continued to have difficulties passing recent cost increases through to customers.

Expectations for factory activity six months down the road remained generally upbeat. The index for future production actually fell considerably, from 36 to 15, but the indexes for future shipments and orders remained high. Moreover, the index for future backlog of orders jumped from 12 to 32, suggesting that product sales are expected to remain strong for the foreseeable future. The future capital expenditures index rose for the sixth straight month and has now been above zero for the last two months, so overall plant and equipment expansion at district firms should begin soon. The future employment index fell somewhat, but remained positive for the fifth consecutive month, suggesting that job gains will be coming soon. The future price indexes remained positive, especially the materials price index, but both indexes were down somewhat from April.

Table 1

Summary of Tenth District Manufacturing Conditions, May 2002

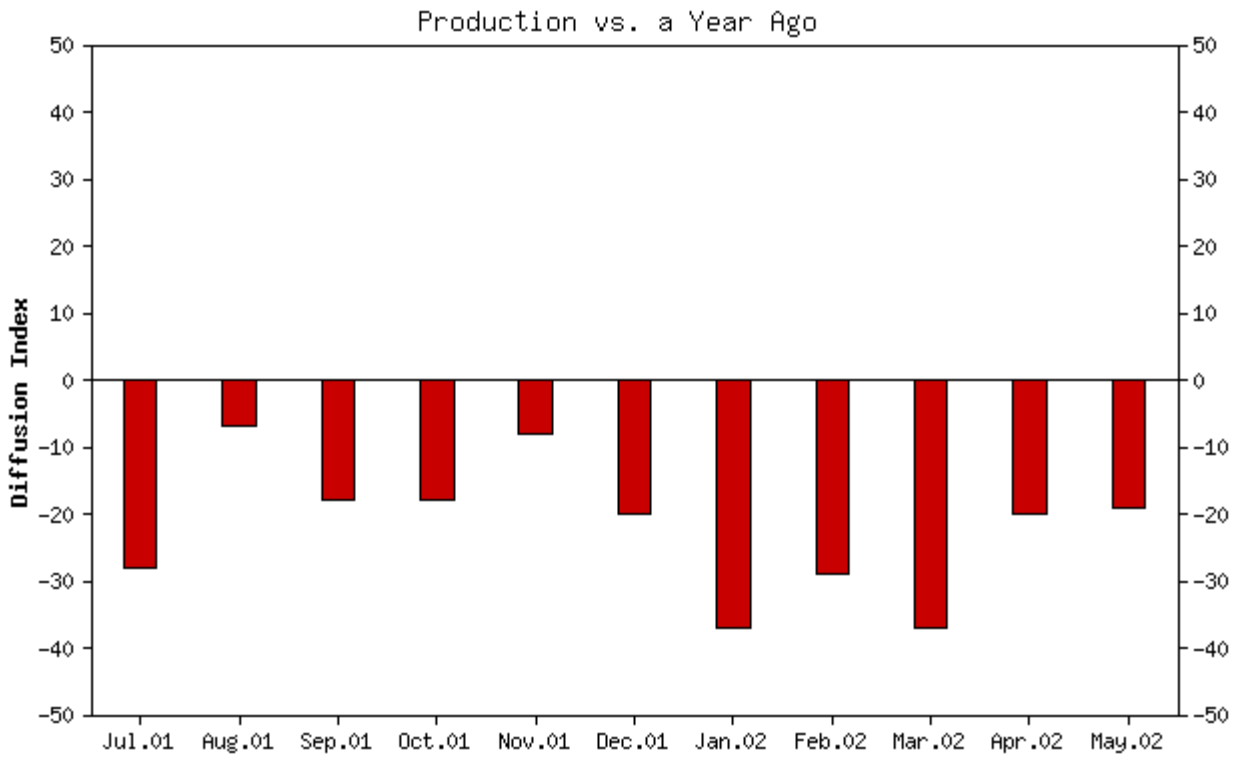
	May vs. April (percent, not seasonally adjusted)				May vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *
Plant Level Indicators												
Production	37	42	18	19	27	22	46	-19	39	31	24	15
Volume of shipments	45	34	16	29	31	22	42	-11	53	24	18	35
Volume of new orders	40	37	18	22	37	22	36	1	56	22	18	38
Backlog of orders	16	59	19	-3	18	36	40	-22	39	48	7	32
Number of employees	22	53	22	0	13	25	59	-46	18	69	10	8
Average employee workweek	16	68	13	3	16	43	36	-20	21	66	10	11
Prices received for finished product	7	75	15	-8	24	42	31	-7	24	60	12	12
Prices paid for raw materials	25	66	6	19	33	42	22	11	37	53	7	30
Capital expenditures					15	39	43	-28	31	46	19	12
New orders for exports	9	78	6	3	12	62	15	-3	18	69	6	12
Supplier delivery time	9	84	4	5	10	78	7	3	9	87	1	8
Inventories:												
Materials	25	48	21	4	24	27	42	-18	30	34	30	0
Finished goods	28	43	19	9	33	28	31	2	33	39	22	11

* 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 May survey included 66 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

	Jul'01	Aug'01	Sep'01	Oct'01	Nov'01	Dec'01	Jan'02	Feb'02	Mar'02	Apr'02	May'02
Versus a Month Ago (not seasonally adjusted)											
Production	-21	22	0	6	-15	-21	6	3	24	18	19
Volume of shipments	-28	15	5	-1	-19	-14	-4	-7	33	13	29
Volume of new orders	-24	10	-12	-9	-25	-25	11	-3	27	16	22
Backlog of orders	-20	-2	-26	-20	-23	-19	0	-8	4	-3	-3
Number of employees	-18	-1	-17	-20	-20	-22	-8	-9	2	1	0
Average employee workweek	-12	4	-7	-12	-18	-13	-3	7	6	-2	3
Prices received for finished product	-7	0	-9	-12	-8	-5	-9	-8	0	-3	-8
Prices paid for raw materials	3	-3	-1	3	-3	2	1	8	17	21	19
Capital expenditures	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	8	6	-1	-5	-5	-12	-2	-6	8	6	3
Supplier delivery time	1	-3	-8	-9	0	-1	3	5	10	4	5
Inventories: Materials	-24	-10	-12	-6	-13	-29	3	-19	-4	-11	4
Inventories: Finished goods	-21	-5	-7	-6	-15	-24	0	5	3	0	9
Versus a Year Ago											
Production	-28	-7	-18	-18	-8	-20	-37	-29	-37	-20	-19
Volume of shipments	-28	-1	-11	-16	-12	-6	-36	-27	-37	-19	-11
Volume of new orders	-28	-12	-13	-21	-21	-20	-30	-29	-36	-12	1
Backlog of orders	-22	-7	-16	-19	-14	-21	-27	-24	-23	-25	-22
Number of employees	-32	-25	-32	-34	-38	-41	-41	-46	-41	-37	-46
Average employee workweek	-32	-5	-25	-27	-29	-24	-20	-29	-22	-34	-20
Prices received for finished product	-5	13	3	-7	-2	5	2	6	-6	-5	-7
Prices paid for raw materials	16	9	12	15	0	0	-2	23	24	18	11
Capital expenditures	-11	-22	-25	-31	-25	-24	-21	-36	-39	-30	-28
New orders for exports	1	-2	0	1	-8	-8	-8	-12	-10	-7	-3
Supplier delivery time	1	-2	-1	-6	-16	-1	-7	-2	6	4	3
Inventories: Materials	-30	-15	-14	-11	-33	-27	-33	-30	-27	-20	-18
Inventories: Finished goods	-20	-12	0	-15	-27	-27	-34	-17	-15	-13	2
Expected in Six Months (not seasonally adjusted)											
Production	12	13	6	4	13	22	33	32	42	36	15
Volume of shipments	15	8	4	4	13	29	41	34	45	37	35
Volume of new orders	13	15	11	11	8	19	28	37	44	36	38
Backlog of orders	-3	3	-15	-2	-9	2	5	18	13	12	32
Number of employees	-15	7	-13	-14	-7	-6	-5	15	19	21	8
Average employee workweek	-9	6	-6	-6	-9	-1	4	3	18	18	11
Prices received for finished product	10	10	4	2	13	13	0	6	12	18	12
Prices paid for raw materials	22	6	11	5	14	21	13	25	30	38	30
Capital expenditures	0	-16	-19	-18	-23	-14	-9	-7	0	5	12
New orders for exports	12	7	-3	3	-1	0	1	3	13	6	12
Supplier delivery time	-5	-3	-2	4	-4	3	3	5	4	11	8
Inventories: Materials	-28	-16	-20	-27	-29	-7	-16	-3	4	-2	0
Inventories: Finished goods	-24	-11	-24	-29	-22	-15	-21	3	7	0	11



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