



News Release

Federal Reserve Bank of Kansas City

Kansas City, Missouri 64198

Phone (816) 881-2683

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Kansas City, Missouri 64198
Phone (816) 881-2683
Fax (816) 881-2569

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Manufacturing activity in the Tenth Federal Reserve District improved in June and expectations for future activity remained generally positive, although not as strong as a few months ago. The future price index for raw materials remained high while the future finished goods price index declined, suggesting firms expect continued difficulties in passing through cost increases.

A summary of the June 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 June 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 improved again in June, as production rose to almost year-ago levels. Expectations for future activity, however, were not as strong as a few months ago, and firms faced increased materials cost pressures. Production versus a month ago rose for the sixth straight survey and the monthly employment index posted its largest gain in several years. 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 -5 in June, a marked increase from May and the highest reading since late 2000 (Tables 1 & 2). The increase was due to improvement among producers of durable goods, which were hardest hit by the economic recession. Despite the improvement, however, the year-over-year durable production index was still somewhat negative. Production among nondurable-goods-producing plants remained fairly steady at just above year-ago levels. While sample sizes make it more difficult to draw firm conclusions about individual states, it appears from the data available that year-over-year production indexes in Nebraska, Oklahoma, and western Missouri improved but remained negative, while production versus a year ago in Colorado and Kansas remained essentially flat.

In addition to production, several other year-over-year indicators of factory activity showed improvement in June, most notably capital expenditures and number of employees. While still quite negative, both of these indicators were at their highest levels since last August. Most other indicators, including the volume of shipments, were largely unchanged from May. An important exception was the volume of new orders, which fell back below year-ago levels after rising sharply in May.

Perhaps in response to this somewhat weaker volume of orders, the year-over-year inventory indexes both fell in June for the first time since January. The index for finished goods inventories, in particular, dropped significantly after rising above zero in May for the first time since late 2000.

The gap between the year-over-year materials and finished goods price indexes widened considerably in June after narrowing somewhat in the previous two months. The index for prices paid for raw materials jumped from 11 to 26, the highest level in a year and a half. Meanwhile, the index for prices received for finished products fell to -13, the lowest on record, as difficulties passing cost increases through to customers appeared to increase.

Expectations for factory activity six months down the road remained generally positive in June, but were not as strong as earlier in the year. The index for future production rose slightly, from 15 to 20, but was less than half of the March reading. Meanwhile, indexes for future shipments, orders, and employment all fell and the index for future capital spending leveled out after increasing in each of the past six surveys. The future price index for raw materials fell somewhat in June but was still high at 27. The future finished goods price index declined to 0, suggesting that firms expect continued difficulties in passing through cost increases.

Table 1

Summary of Tenth District Manufacturing Conditions, June 2002

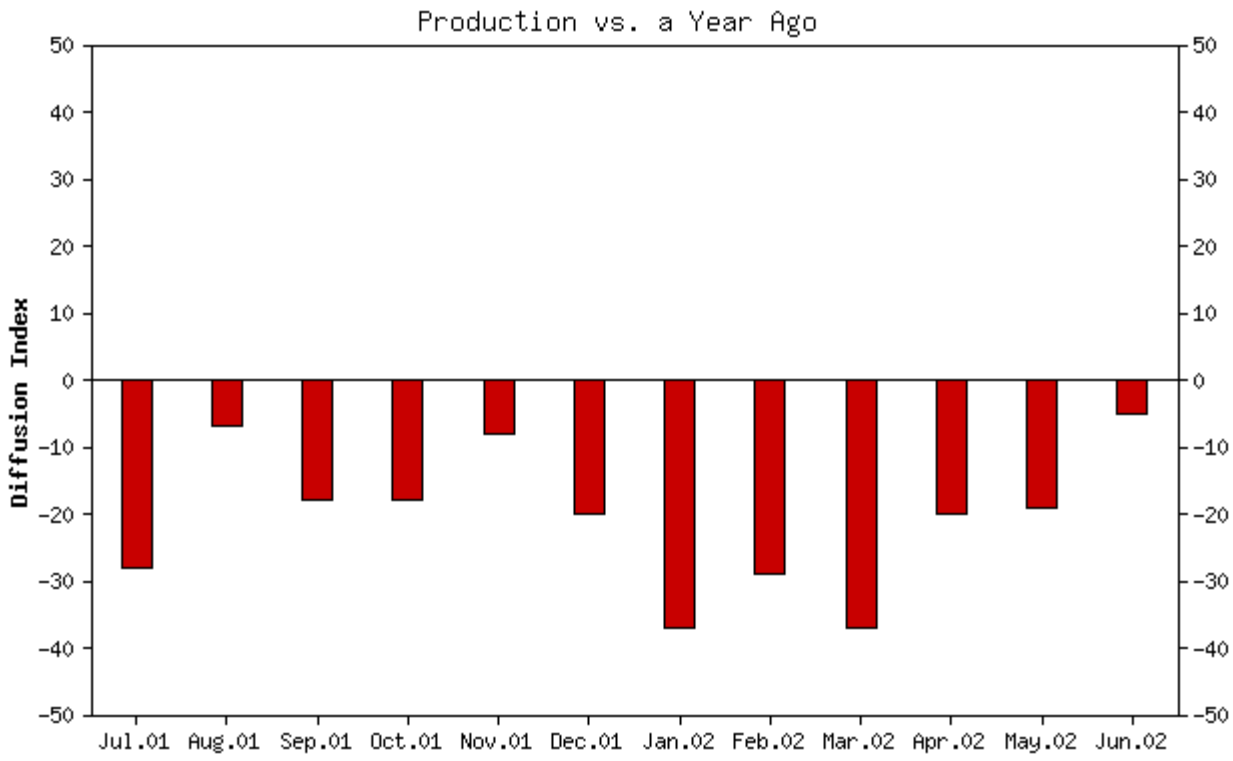
	June vs. May (percent, not seasonally adjusted)				June vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *
Plant Level Indicators												
Production	34	37	28	6	35	24	40	-5	46	26	26	20
Volume of shipments	38	32	29	9	33	20	46	-13	47	29	23	24
Volume of new orders	37	31	29	8	31	22	44	-13	48	28	21	27
Backlog of orders	17	48	32	-15	20	33	44	-24	33	43	20	13
Number of employees	24	57	16	8	22	26	50	-28	23	55	19	4
Average employee workweek	19	60	19	0	18	44	36	-18	21	61	16	5
Prices received for finished product	6	74	17	-11	22	41	35	-13	19	60	19	0
Prices paid for raw materials	23	69	6	17	45	33	19	26	36	54	9	27
Capital expenditures					20	35	41	-21	29	48	17	12
New orders for exports	7	72	11	-4	12	61	18	-6	20	60	12	8
Supplier delivery time	9	85	3	6	17	70	9	8	13	79	4	9
Inventories:												
Materials	16	54	29	-13	18	37	44	-26	27	42	28	-1
Finished goods	18	52	28	-10	24	32	42	-18	27	42	29	-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 June survey included 99 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	Jun'02
Versus a Month Ago (not seasonally adjusted)												
Production	-21	22	0	6	-15	-21	6	3	24	18	19	6
Volume of shipments	-28	15	5	-1	-19	-14	-4	-7	33	13	29	9
Volume of new orders	-24	10	-12	-9	-25	-25	11	-3	27	16	22	8
Backlog of orders	-20	-2	-26	-20	-23	-19	0	-8	4	-3	-3	-15
Number of employees	-18	-1	-17	-20	-20	-22	-8	-9	2	1	0	8
Average employee workweek	-12	4	-7	-12	-18	-13	-3	7	6	-2	3	0
Prices received for finished product	-7	0	-9	-12	-8	-5	-9	-8	0	-3	-8	-11
Prices paid for raw materials	3	-3	-1	3	-3	2	1	8	17	21	19	17
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
New orders for exports	8	6	-1	-5	-5	-12	-2	-6	8	6	3	-4
Supplier delivery time	1	-3	-8	-9	0	-1	3	5	10	4	5	6
Inventories: Materials	-24	-10	-12	-6	-13	-29	3	-19	-4	-11	4	-13
Inventories: Finished goods	-21	-5	-7	-6	-15	-24	0	5	3	0	9	-10
Versus a Year Ago												
Production	-28	-7	-18	-18	-8	-20	-37	-29	-37	-20	-19	-5
Volume of shipments	-28	-1	-11	-16	-12	-6	-36	-27	-37	-19	-11	-13
Volume of new orders	-28	-12	-13	-21	-21	-20	-30	-29	-36	-12	1	-13
Backlog of orders	-22	-7	-16	-19	-14	-21	-27	-24	-23	-25	-22	-24
Number of employees	-32	-25	-32	-34	-38	-41	-41	-46	-41	-37	-46	-28
Average employee workweek	-32	-5	-25	-27	-29	-24	-20	-29	-22	-34	-20	-18
Prices received for finished product	-5	13	3	-7	-2	5	2	6	-6	-5	-7	-13
Prices paid for raw materials	16	9	12	15	0	0	-2	23	24	18	11	26
Capital expenditures	-11	-22	-25	-31	-25	-24	-21	-36	-39	-30	-28	-21
New orders for exports	1	-2	0	1	-8	-8	-8	-12	-10	-7	-3	-6
Supplier delivery time	1	-2	-1	-6	-16	-1	-7	-2	6	4	3	8
Inventories: Materials	-30	-15	-14	-11	-33	-27	-33	-30	-27	-20	-18	-26
Inventories: Finished goods	-20	-12	0	-15	-27	-27	-34	-17	-15	-13	2	-18
Expected in Six Months (not seasonally adjusted)												
Production	12	13	6	4	13	22	33	32	42	36	15	20
Volume of shipments	15	8	4	4	13	29	41	34	45	37	35	24
Volume of new orders	13	15	11	11	8	19	28	37	44	36	38	27
Backlog of orders	-3	3	-15	-2	-9	2	5	18	13	12	32	13
Number of employees	-15	7	-13	-14	-7	-6	-5	15	19	21	8	4
Average employee workweek	-9	6	-6	-6	-9	-1	4	3	18	18	11	5
Prices received for finished product	10	10	4	2	13	13	0	6	12	18	12	0
Prices paid for raw materials	22	6	11	5	14	21	13	25	30	38	30	27
Capital expenditures	0	-16	-19	-18	-23	-14	-9	-7	0	5	12	12
New orders for exports	12	7	-3	3	-1	0	1	3	13	6	12	8
Supplier delivery time	-5	-3	-2	4	-4	3	3	5	4	11	8	9
Inventories: Materials	-28	-16	-20	-27	-29	-7	-16	-3	4	-2	0	-1
Inventories: Finished goods	-24	-11	-24	-29	-22	-15	-21	3	7	0	11	-2



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