



News Release

Federal Reserve Bank of Kansas City

Kansas City, Missouri 64198

Phone (816) 881-2683

News Release
Federal Reserve Bank of Kansas City
Kansas City, Missouri 64198
Phone (816) 881-2683
Fax (816) 881-2569

FOR RELEASE Monday, April 8, 2002
EMBARGOED FOR 11:00 A.M. EST

Manufacturing activity in the Tenth Federal Reserve District showed further signs of improvement in March, but was still very weak when compared with a year ago. Expectations for future production and employment reached two-year highs and, for the first time since last summer, there were as many firms planning increases in capital expenditures over the next six months as planning decreases.

A summary of the March 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 showed further signs of improvement in March, but was still very weak when compared with a year ago. Expectations for future production and employment reached two-year highs and, for the first time since last summer, there were as many firms planning increases in capital expenditures over the next six months as planning decreases. Production versus a month ago also showed a large increase following modest rises in January and February, but the 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.

After improving somewhat in February, the net percentage of firms reporting increases in production from a year ago fell back to -37 in March (Tables 1 & 2). This level matches the survey low reached in January. The dropoff in March was concentrated at durable goods-producing plants, which have been hardest hit by the recession. Meanwhile, production at nondurable goods-producing plants was slightly higher than a year ago. In fact, district producers of nondurable goods, such as food and paper products, have only reported one month of below-year-ago production levels during the recession—in September. While sample sizes make it more difficult to draw firm conclusions about individual states, it appears from the data available that production remains well below year-ago levels in all district states.

In addition to production, the year-over-year indexes for shipments and new orders also reached survey lows in March after improving slightly in February. And the year-over-year capital expenditures index fell further from the survey low posted last month. On a more positive note, the year-over-year indexes for number of employees and average employee workweek became slightly less negative.

Inventories of both raw materials and finished products remained well below year-ago levels in March, but slightly less so than earlier in the year. The year-over-year index for supplier delivery time also rose above zero for the first time in over a year. The fact that firms are no longer aggressively reducing their finished goods inventories suggests they may meet any future increases in demand through increased production.

The price indexes were mixed. The year-over-year index for prices paid for raw materials remained quite high at 24, consistent with the increased demand suggested by rising delivery times and an end of inventory reductions. However, the year-over-year index for prices received for finished products fell below zero for the first time in four months, suggesting that firms were having more difficulties passing cost increases on to customers.

Expectations for future factory activity reached a two-year high in March, after increasing fairly steadily since November. The future production index rose from 32 to 42, and expectations for new orders and shipments made similar improvements. Perhaps most encouraging was the continued rise in the index for expected capital expenditures. That index reached zero—signifying that as many firms expect increases in spending as decreases over the next six months—for the first time since last July. As in the previous survey, a considerably larger number of firms also expect to add workers than subtract them within the next six months. Regarding prices, a rising number of firms expect continued increases in raw materials prices. The future index for finished goods prices also rose somewhat but was not as high as that for raw materials, suggesting that pricing power could remain an issue for some firms.

Table 1

Summary of Tenth District Manufacturing Conditions, March 2002

	March vs. February (percent, not seasonally adjusted)				March 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	41	17	24	15	31	52	-37	54	31	12	42
Volume of shipments	46	39	13	33	17	24	54	-37	57	27	12	45
Volume of new orders	43	36	16	27	16	27	52	-36	57	24	13	44
Backlog of orders	27	47	23	4	20	32	43	-23	32	45	19	13
Number of employees	21	58	19	2	13	30	54	-41	32	52	13	19
Average employee workweek	23	57	17	6	9	56	31	-22	28	57	10	18
Prices received for finished product	10	75	10	0	24	42	30	-6	21	65	9	12
Prices paid for raw materials	23	69	6	17	39	43	15	24	35	57	5	30
Capital expenditures					10	38	49	-39	19	57	19	0
New orders for exports	17	65	9	8	9	63	19	-10	19	65	6	13
Supplier delivery time	10	87	0	10	15	72	9	6	10	79	6	4
Inventories:												
Materials	23	47	27	-4	15	38	42	-27	28	43	24	4
Finished goods	24	52	21	3	20	39	35	-15	28	46	21	7

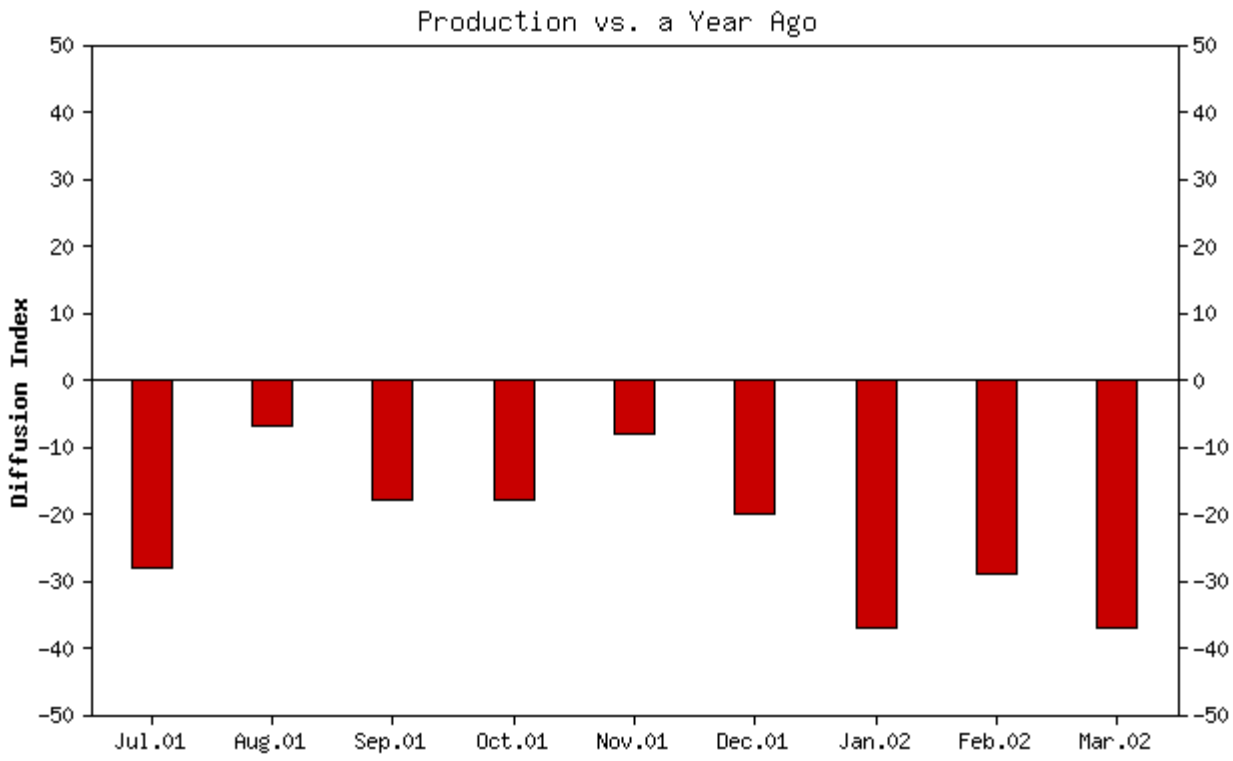
* The diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicator from the percentage of those reporting increases. Index values greater than zero generally suggest expansion, while values less than zero indicate contraction. When index values are closer to 100, the increases among respondents are more widespread. When index values are closer to -100, decreases are more widespread.

Note: The March survey included 73 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
Versus a Month Ago (not seasonally adjusted)									
Production	-21	22	0	6	-15	-21	6	3	24
Volume of shipments	-28	15	5	-1	-19	-14	-4	-7	33
Volume of new orders	-24	10	-12	-9	-25	-25	11	-3	27
Backlog of orders	-20	-2	-26	-20	-23	-19	0	-8	4
Number of employees	-18	-1	-17	-20	-20	-22	-8	-9	2
Average employee workweek	-12	4	-7	-12	-18	-13	-3	7	6
Prices received for finished product	-7	0	-9	-12	-8	-5	-9	-8	0
Prices paid for raw materials	3	-3	-1	3	-3	2	1	8	17
Capital expenditures	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
Supplier delivery time	1	-3	-8	-9	0	-1	3	5	10
Inventories: Materials	-24	-10	-12	-6	-13	-29	3	-19	-4
Inventories: Finished goods	-21	-5	-7	-6	-15	-24	0	5	3
Versus a Year Ago									
Production	-28	-7	-18	-18	-8	-20	-37	-29	-37
Volume of shipments	-28	-1	-11	-16	-12	-6	-36	-27	-37
Volume of new orders	-28	-12	-13	-21	-21	-20	-30	-29	-36
Backlog of orders	-22	-7	-16	-19	-14	-21	-27	-24	-23
Number of employees	-32	-25	-32	-34	-38	-41	-41	-46	-41
Average employee workweek	-32	-5	-25	-27	-29	-24	-20	-29	-22
Prices received for finished product	-5	13	3	-7	-2	5	2	6	-6
Prices paid for raw materials	16	9	12	15	0	0	-2	23	24
Capital expenditures	-11	-22	-25	-31	-25	-24	-21	-36	-39
New orders for exports	1	-2	0	1	-8	-8	-8	-12	-10
Supplier delivery time	1	-2	-1	-6	-16	-1	-7	-2	6
Inventories: Materials	-30	-15	-14	-11	-33	-27	-33	-30	-27
Inventories: Finished goods	-20	-12	0	-15	-27	-27	-34	-17	-15
Expected in Six Months (not seasonally adjusted)									
Production	12	13	6	4	13	22	33	32	42
Volume of shipments	15	8	4	4	13	29	41	34	45
Volume of new orders	13	15	11	11	8	19	28	37	44
Backlog of orders	-3	3	-15	-2	-9	2	5	18	13
Number of employees	-15	7	-13	-14	-7	-6	-5	15	19
Average employee workweek	-9	6	-6	-6	-9	-1	4	3	18
Prices received for finished product	10	10	4	2	13	13	0	6	12
Prices paid for raw materials	22	6	11	5	14	21	13	25	30
Capital expenditures	0	-16	-19	-18	-23	-14	-9	-7	0
New orders for exports	12	7	-3	3	-1	0	1	3	13
Supplier delivery time	-5	-3	-2	4	-4	3	3	5	4
Inventories: Materials	-28	-16	-20	-27	-29	-7	-16	-3	4
Inventories: Finished goods	-24	-11	-24	-29	-22	-15	-21	3	7



[Federal Reserve Bank of Kansas City
Manufacturing Survey Home Page](#)