News Release

Federal Reserve Bank of Kansas City

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FOR RELEASE Thursday, May 25, 2006
EMBARGOED FOR 11:00 A.M. EST

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Manufacturing activity in the Tenth Federal Reserve District accelerated in May, with the monthly production index posting its highest reading in over a year. Expectations for future factory activity generally remained strong, while most price indexes in the survey were relatively stable.

A summary of the May survey is attached to this press release. Results from past surveys and release dates for future surveys can be found at: http://www.kc.frb.org/mfgsurv/mfgmain.htm. For further information about the survey, contact Tim Todd, Public Affairs Department, (816) 881-2308.

The Tenth Federal Reserve District encompasses Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Survey of Tenth District Manufacturing

Manufacturing activity in the Tenth Federal Reserve District accelerated in May, with the monthly production index posting its highest reading in over a year. Expectations for future factory activity generally remained strong, while most price indexes in the survey were relatively stable.

The net percentage of firms reporting month-over-month increases in production in May was 34, up from 17 in April and 26 in March (Tables 1 & 2, Chart). The improvement was broad-based, as production accelerated at both durable- and nondurable-goods-producing plants. The year-over-year production index increased this month as well, rising from 39 to 54. The future production index remained high by historical standards, easing from 37 to 36. Although sample sizes make it difficult to draw firm conclusions about individual states, the data available suggest that production remained well above year-ago levels in all district states.

Most other month-over-month indexes of factory activity improved or remained relatively unchanged from April to May. The shipments index jumped considerably, rising from 9 to 30, and the new orders index increased from 25 to 31, with both indexes recording the highest readings in two years. The employment index eased slightly and the index for workweek remained relatively unchanged. The materials inventory index was up from last month, while the finished goods inventory index showed a slight decrease. The export orders and supplier delivery time indexes were similar to last month’s readings.

Most other year-over-year indexes also rose or remained unchanged in May and, overall, district factory activity remains much stronger than a year ago. The shipments and new orders indexes increased slightly for the second straight month, and the capital spending index rebounded after falling slightly last month, recording its highest level since the survey began in 1994. In addition, the finished goods inventory index rose from 14 to 21 and the materials inventory index remained relatively unchanged.

Plant managers’ expectations for future factory activity remained generally stable, with a few slight increases. The future production index was relatively unchanged, easing from 37 to 36. The future shipments index rose slightly from 30 to 35 and the future new orders index rebounded after a three month decline. The future inventory indexes also increased slightly. On the other hand, the future capital spending index dropped from 14 to 8, its lowest level in three years.

The price indexes in the survey generally posted little change from last month, with the exception of the future raw materials price index, which increased moderately. The month-over-month finished goods price index fell from 18 to 15, while the raw materials price index increased for the second straight month, from 47 to 54. The year-over-year price indexes remained largely unchanged, with both indexes easing slightly. The future raw materials price index fell from 67 to 65, while the future finished goods price index edged up from 33 to 34.

Table1

Summary of Tenth District Manufacturing Conditions, May 2006

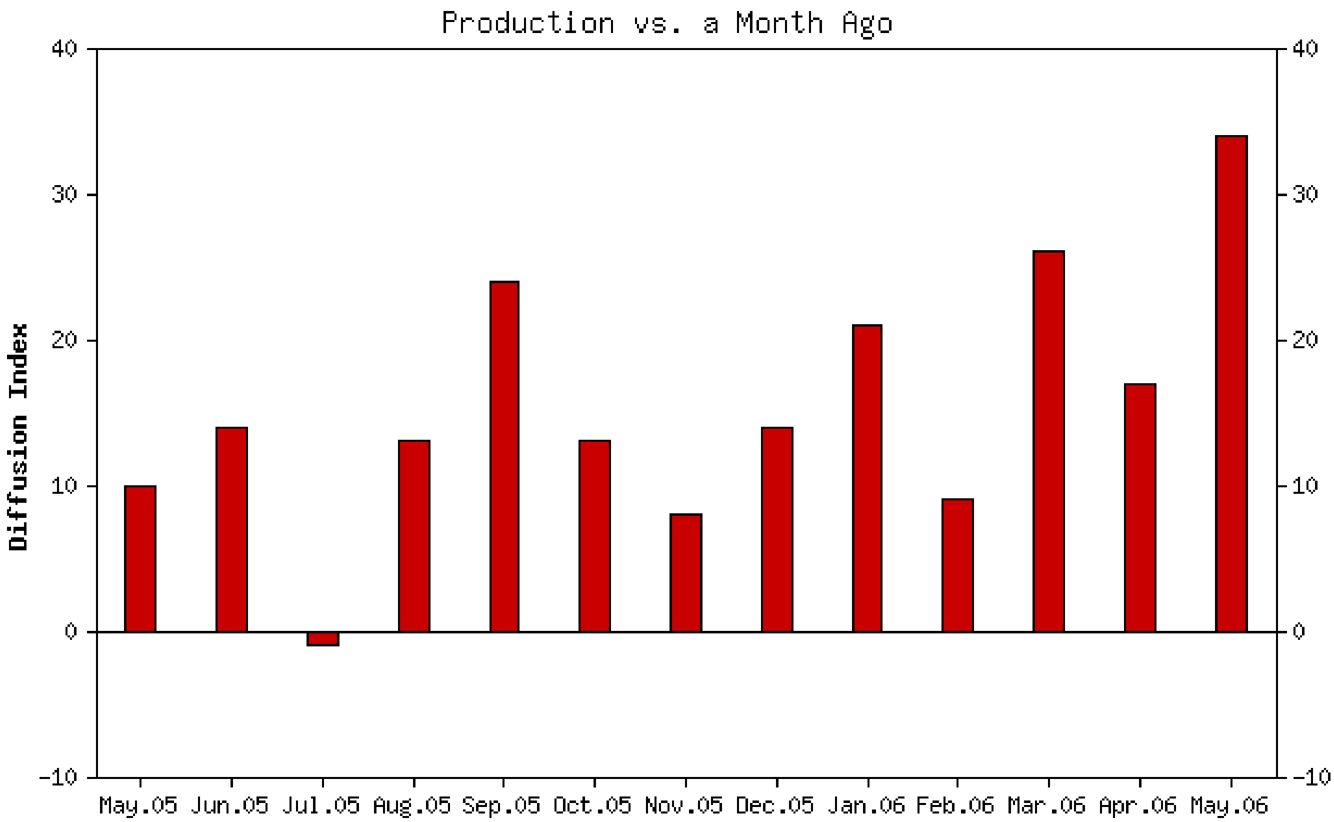
Plant Level Indicators	May vs. April (percent)[1]					May vs. Year Ago (percent)[1]				Expected in Six Months (percent)[1]				
	Increase	No Change	Decrease	Diff Index[2]	SA Index[3]	Increase	No Change	Decrease	Diff Index[2]	Increase	No Change	Decrease	Diff Index[2]	SA Index[3]
Production	46	39	13	32	34	64	24	10	54	47	36	15	31	36
Volume of shipments	46	35	18	28	30	60	21	17	43	52	27	19	32	35
Volume of new orders	46	31	17	29	31	59	23	12	46	52	31	11	40	41
Backlog of orders	28	52	15	12	9	39	41	14	24	32	50	14	18	16
Number of employees	26	63	9	17	14	45	34	20	25	30	55	12	18	19
Average employee workweek	23	65	10	12	12	25	64	8	17	20	68	9	10	7
Prices received for finished product	22	71	6	15	15	65	25	8	57	40	53	6	34	34
Prices paid for raw materials	55	40	3	52	54	85	10	4	80	69	21	6	62	65
Capital expenditures						47	39	12	35	28	52	19	9	8
New orders for exports	12	72	6	6	8	22	60	7	14	17	68	5	11	10
Supplier delivery time	19	74	4	14	13	24	65	8	15	8	82	7	1	0
Inventories:														
Materials	27	59	10	17	17	43	39	15	27	24	55	19	5	5
Finished goods	27	46	20	7	4	38	41	17	21	21	57	17	4	6

[1]Percentage may not add to 100 due to rounding.
[2]Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.
[3]Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12.
Note: The May survey included 94 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2

Historical Manufacturing Survey Indexes

	May'05	Jun'05	Jul'05	Aug'05	Sep'05	Oct'05	Nov'05	Dec'05	Jan'06	Feb'06	Mar'06	Apr'06	May'06
Versus a Month Ago (seasonally adjusted)													
Production	10	14	-1	13	24	13	8	14	21	9	26	17	34
Volume of shipments	19	20	6	12	13	12	1	5	16	-4	12	9	30
Volume of new orders	19	20	9	9	18	16	13	13	19	10	21	25	31
Backlog of orders	6	3	-2	6	14	16	10	12	9	13	2	9	9
Number of employees	4	9	15	3	3	11	9	7	14	15	16	18	14
Average employee workweek	11	13	9	6	9	8	2	15	6	1	8	15	12
Prices received for finished product	9	9	9	11	19	17	16	18	19	17	13	18	15
Prices paid for raw materials	29	23	24	38	56	51	45	45	36	38	35	47	54
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	2	5	4	7	6	6	10	5	10	4	6	5	8
Supplier delivery time	12	9	8	9	13	11	11	8	7	8	9	14	13
Inventories: Materials	1	8	7	7	2	1	6	16	13	14	11	10	17
Inventories: Finished goods	-8	-2	4	7	0	2	7	13	17	17	14	10	4
Versus a Year Ago (not seasonally adjusted)													
Production	34	38	42	33	55	36	38	26	48	37	39	39	54
Volume of shipments	39	50	46	33	49	38	40	26	43	31	33	33	43
Volume of new orders	45	43	44	33	49	41	40	32	54	30	35	43	46
Backlog of orders	29	23	26	27	29	25	32	31	29	16	24	28	24
Number of employees	20	23	21	18	21	20	19	20	22	24	24	24	25
Average employee workweek	10	23	23	26	17	20	16	21	20	13	19	15	17
Prices received for finished product	45	48	48	48	55	50	45	58	47	52	54	58	57
Prices paid for raw materials	69	70	71	70	82	83	70	85	69	70	78	83	80
Capital expenditures	20	27	20	33	15	31	29	33	31	22	30	25	35
New orders for exports	5	7	13	14	12	16	14	16	13	9	17	16	14
Supplier delivery time	27	17	15	25	25	19	15	14	18	10	13	16	15
Inventories: Materials	17	16	23	31	21	15	22	19	11	27	24	24	27
Inventories: Finished goods	12	9	19	24	19	10	14	15	16	22	19	14	21
Expected in Six Months (seasonally adjusted)													
Production	35	34	36	25	32	23	29	33	29	47	46	37	36
Volume of shipments	34	33	37	30	31	25	31	31	28	51	31	30	35
Volume of new orders	32	31	29	25	21	24	29	26	45	41	30	32	41
Backlog of orders	17	0	13	15	7	10	10	9	22	17	8	15	16
Number of employees	18	17	20	16	14	19	1	15	31	14	23	23	19
Average employee workweek	9	4	8	6	0	3	0	3	6	17	7	3	7
Prices received for finished product	30	28	27	31	37	34	37	44	38	29	36	33	34
Prices paid for raw materials	49	47	36	54	65	69	58	63	58	55	59	67	65
Capital expenditures	20	21	20	26	17	21	21	30	26	17	20	14	8
New orders for exports	12	9	11	9	9	11	7	14	8	9	12	12	10
Supplier delivery time	5	9	-2	5	9	10	8	10	12	4	8	2	0
Inventories: Materials	3	4	0	4	3	3	9	3	5	16	3	2	5
Inventories: Finished goods	0	-1	-3	2	4	4	4	4	4	12	2	2	6



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