



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Tenth Federal Reserve District remained sluggish in October, but optimism about future production increased. The future production index along with expectations of future orders and shipments rose in October, while gains in future employment and capital spending were more modest, suggesting firms believe they can modestly increase production in the near term mainly through increased productivity, more overtime, and greater use of current capacity.

A summary of the October 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 October 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 remained sluggish in October, although firms' optimism about the future increased. The year-over-year indexes for production, shipments, and new orders improved during the month. However, the indexes were still quite low and benefited from the fact that activity was weak in October 2001. The month-over-month indexes for production, shipments, and new orders, which are not seasonally adjusted, were slightly positive, but past experience suggests the increases may be due largely to seasonal factors. Specifically, seasonal adjustment factors from the bank's old quarterly manufacturing survey, which ran from 1994 to mid-2001, indicate that activity usually picks up in October. The monthly survey is still too brief to seasonally adjust, so this report will continue to focus more on year-over-year changes than month-over-month changes.

The net percentage of firms reporting year-over-year increases in production rose from -13 in September to 1 in October, the first positive reading since late 2000 (Tables 1 & 2). Given the weak state of the district manufacturing sector in October 2001, however, the lack of significant improvement from a year ago suggests continued sluggishness in regional factory activity. The rise in the year-over-year production index came largely from durable goods-producing plants, which have generally been hit the hardest over the past two years. Output at nondurable goods-producing plants continued to expand modestly on a year-over-year basis, as it has since March. Although sample sizes make it more difficult to draw firm conclusions about individual states, the data available suggest that production was at or above year-ago levels in all district states but Oklahoma.

Other year-over-year indexes showed mixed results in October. The volume of shipments at district plants was the same as a year ago and the volume of new orders was slightly higher than last year's weak volume. Employment and capital expenditures, however, remained well below year-ago levels, as many firms remain reluctant to add more workers or capacity until activity picks up significantly. The average employee workweek moved closer to year-ago levels in October, suggesting that firms were working a smaller number of employees longer hours, and also more productively than in the past, in order to sustain production.

The year-over-year inventory indexes edged up along with production and new orders in October. Again, however, it should be noted that these improvements are from the previous October's weak numbers. The not seasonally adjusted month-over-month indexes for both inventories of raw materials and inventories of finished goods were negative in October.

The year-over-year price indexes diverged further in October after holding steady in previous months. The net percentage of firms reporting raw materials price increases from a year ago rose to 36, up from the low 30s in July, August, and September. Meanwhile, the year-over-year finished goods price index fell to -22, considerably lower than during the third quarter. The divergence suggests the profit squeeze on manufacturers has intensified, as firms have been unsuccessful in passing cost increases through to customers.

Despite continued sluggishness in the district manufacturing sector in recent months, firms' optimism about future production increased in October. The future production index rose to 34, up from 25 in August and September, and from 15 as recently as May. Expectations for future shipments and new orders also rose considerably in October. The future employment and capital spending indexes were positive as well, but much less so than production, shipments, and new orders. Firms appear to believe they can modestly increase production in the near term mainly through increased productivity, more overtime, and greater use of current capacity. Expectations for both raw materials and finished goods prices fell in October, but materials prices are still expected to go up considerably faster than product prices. In fact, for the second month in a row, firms actually expect declines in finished goods prices over the next six months.

Table 1

Summary of Tenth District Manufacturing Conditions, October 2002

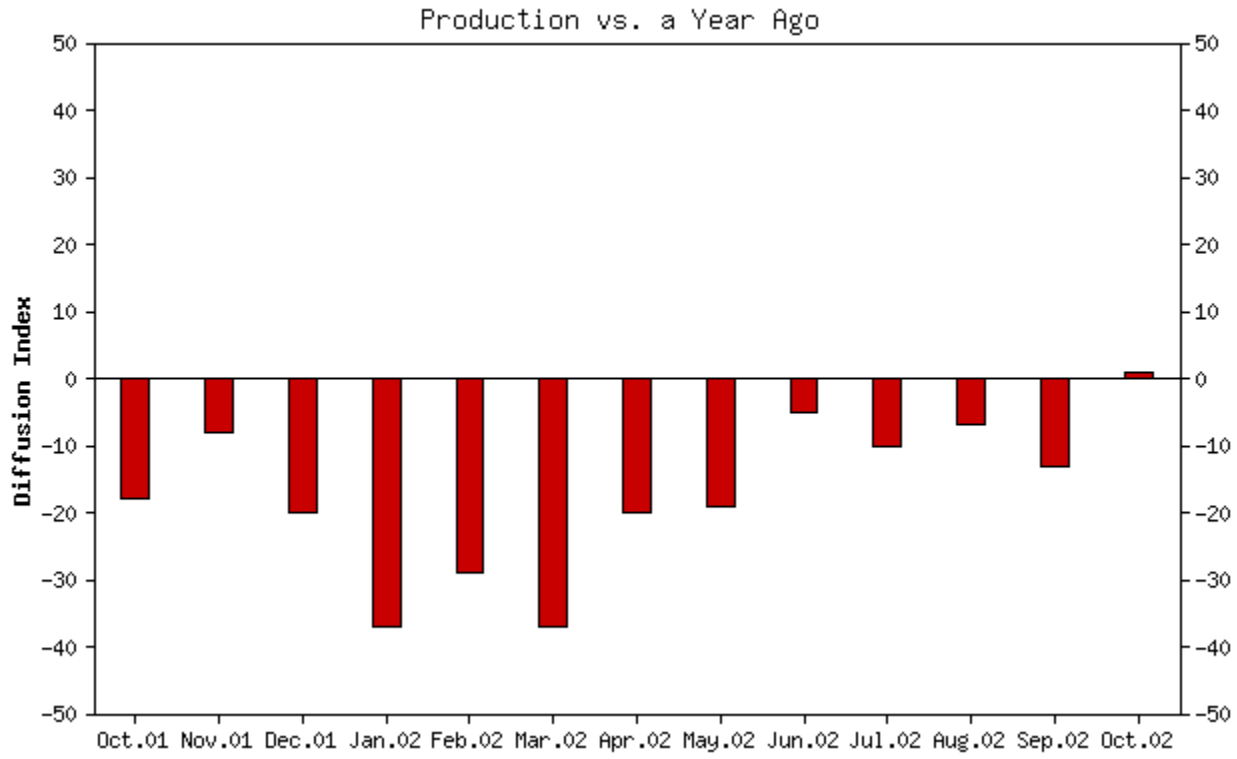
	October vs. September (percent, not seasonally adjusted)				October vs. Year Ago (percent)				Expected in Six Months (percent, not seasonally adjusted)			
	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*	Increase	No Change	Decrease	Index*
Plant Level Indicators												
Production	38	36	25	13	40	19	39	1	53	26	19	34
Volume of shipments	35	32	30	5	38	21	38	0	51	30	16	35
Volume of new orders	38	35	25	13	41	20	35	6	52	29	16	36
Backlog of orders	25	45	28	-3	28	34	36	-8	34	40	24	10
Number of employees	18	53	27	-9	25	19	54	-29	35	39	24	11
Average employee workweek	21	60	17	4	20	51	26	-6	27	52	19	8
Prices received for finished product	6	74	18	-12	18	39	40	-22	15	57	27	-12
Prices paid for raw materials	16	73	7	9	51	28	15	36	29	52	14	15
Capital expenditures					25	37	37	-12	30	42	26	4
New orders for exports	7	76	6	1	14	63	13	1	14	67	10	4
Supplier delivery time	4	85	5	-1	9	76	10	-1	4	84	8	-4
Inventories:												
Materials	20	45	32	-12	37	31	28	9	23	49	26	-3
Finished goods	27	41	29	-2	35	34	26	9	27	43	27	0

* 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 October survey included 91 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Table2
Historical Manufacturing Survey Indexes

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



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