



News Release

Federal Reserve Bank of Kansas City

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Manufacturing activity in the Tenth Federal Reserve District strengthened in April, although it was still weaker than a year ago. Expectations for future production remained upbeat and the indexes for future employment and capital expenditures both rose, suggesting that hiring and spending among district firms should begin to pick up soon.

A summary of the April 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 in April, although it was still weaker than a year ago. Expectations for future production and employment remained upbeat, and more firms now plan increases in capital expenditures over the next six months than plan decreases. Production versus a month ago also showed a large increase for the second straight month following modest rises in January and February. 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.

After falling back to a survey low in March, the net percentage of firms reporting increases in production from a year ago rose to -20 in April, the highest reading since December (Tables 1 & 2). The year-over-year improvement came primarily from durable goods-producing plants, which have been hardest hit by the recession. Meanwhile, production at nondurable goods-producing factories, such as food processing plants, remained slightly higher 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 remains below year-ago levels across the district. However, production appears to move closer to year-ago levels in Colorado, Kansas, and western Missouri.

In addition to production, most other year-over-year indexes of activity showed improvement as well. The new orders index, while still negative, stood at its highest level since last summer, and the shipments index was much less negative than in the previous three months. The capital expenditures index also increased somewhat after reaching a survey low in March, and the employment index continued to edge up from a survey low in February.

Inventories of both raw materials and finished products remained below year-ago levels in April, but less so than earlier in the year. The year-over-year index for supplier delivery time was above zero for the second month in a row following negative readings since last August, suggesting increased demand for some types of materials.

The year-over-year price indexes remained similar to the March survey. The index for prices paid for raw materials was still quite positive at 18, consistent with the higher demand for materials suggested by increased delivery times. Meanwhile, the index for prices received for finished products remained slightly negative, suggesting that firms were having difficulties passing cost increases on to customers.

Expectations for factory activity six months down the road remained very positive, although several future indicators declined slightly from two-year highs reached in March. The indexes for future production, shipments, and new orders all edged down from the low-40s in March to the high-30s in April. However, these indexes remained much higher than in late 2001, when they were all in the single digits. Meanwhile, the future employment index continued to rise after turning positive in February, and the index for future capital expenditures rose above zero for the first time since late 2000, suggesting that hiring and spending among district firms should begin to pick up soon. Also rising were indexes for expected prices of both raw materials and finished goods, with both reaching two-year highs. However, more firms continue to expect increases in materials prices than finished goods prices, suggesting that while some firms plan to pass cost increases on to customers, others anticipate continued problems doing so.

Table 1

Summary of Tenth District Manufacturing Conditions, April 2002

	April vs. March (percent, not seasonally adjusted)				April 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	39	39	21	18	23	33	43	-20	47	40	11	36
Volume of shipments	39	34	26	13	23	34	42	-19	50	34	13	37
Volume of new orders	40	31	24	16	27	28	39	-12	46	37	10	36
Backlog of orders	23	49	26	-3	17	39	42	-25	26	57	14	12
Number of employees	27	44	26	1	15	31	52	-37	36	47	15	21
Average employee workweek	18	59	20	-2	10	43	44	-34	28	57	10	18
Prices received for finished product	7	81	10	-3	23	46	28	-5	31	52	13	18
Prices paid for raw materials	26	65	5	21	36	43	18	18	42	52	4	38
Capital expenditures					13	42	43	-30	26	50	21	5
New orders for exports	14	69	8	6	10	66	17	-7	14	69	8	6
Supplier delivery time	8	81	4	4	14	69	10	4	13	79	2	11
Inventories:												
Materials	20	46	31	-11	20	37	40	-20	21	53	23	-2
Finished goods	28	40	28	0	23	39	36	-13	23	52	23	0

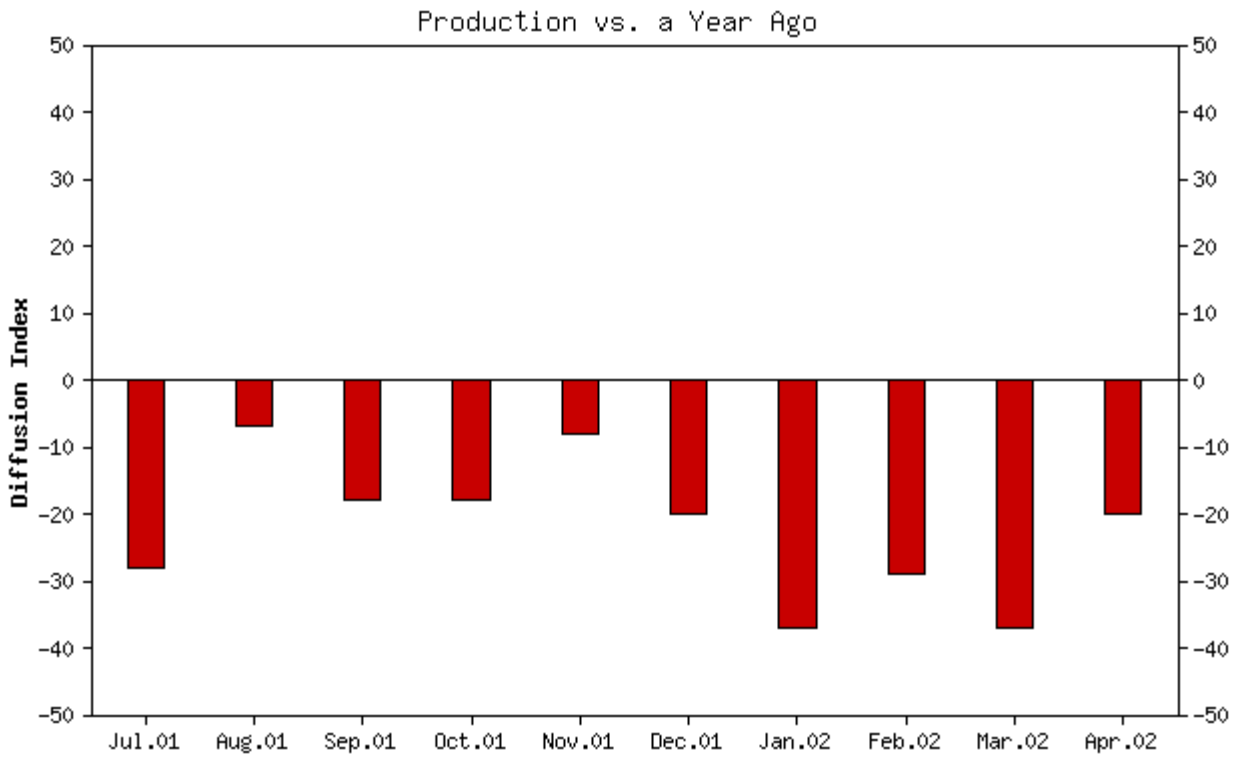
* The diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicator from the percentage of those reporting increases. Index values greater than zero generally suggest expansion, while values less than zero indicate contraction. When index values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

Note: The April survey included 69 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
Versus a Month Ago (not seasonally adjusted)										
Production	-21	22	0	6	-15	-21	6	3	24	18
Volume of shipments	-28	15	5	-1	-19	-14	-4	-7	33	13
Volume of new orders	-24	10	-12	-9	-25	-25	11	-3	27	16
Backlog of orders	-20	-2	-26	-20	-23	-19	0	-8	4	-3
Number of employees	-18	-1	-17	-20	-20	-22	-8	-9	2	1
Average employee workweek	-12	4	-7	-12	-18	-13	-3	7	6	-2
Prices received for finished product	-7	0	-9	-12	-8	-5	-9	-8	0	-3
Prices paid for raw materials	3	-3	-1	3	-3	2	1	8	17	21
Capital expenditures	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
Supplier delivery time	1	-3	-8	-9	0	-1	3	5	10	4
Inventories: Materials	-24	-10	-12	-6	-13	-29	3	-19	-4	-11
Inventories: Finished goods	-21	-5	-7	-6	-15	-24	0	5	3	0
Versus a Year Ago										
Production	-28	-7	-18	-18	-8	-20	-37	-29	-37	-20
Volume of shipments	-28	-1	-11	-16	-12	-6	-36	-27	-37	-19
Volume of new orders	-28	-12	-13	-21	-21	-20	-30	-29	-36	-12
Backlog of orders	-22	-7	-16	-19	-14	-21	-27	-24	-23	-25
Number of employees	-32	-25	-32	-34	-38	-41	-41	-46	-41	-37
Average employee workweek	-32	-5	-25	-27	-29	-24	-20	-29	-22	-34
Prices received for finished product	-5	13	3	-7	-2	5	2	6	-6	-5
Prices paid for raw materials	16	9	12	15	0	0	-2	23	24	18
Capital expenditures	-11	-22	-25	-31	-25	-24	-21	-36	-39	-30
New orders for exports	1	-2	0	1	-8	-8	-8	-12	-10	-7
Supplier delivery time	1	-2	-1	-6	-16	-1	-7	-2	6	4
Inventories: Materials	-30	-15	-14	-11	-33	-27	-33	-30	-27	-20
Inventories: Finished goods	-20	-12	0	-15	-27	-27	-34	-17	-15	-13
Expected in Six Months (not seasonally adjusted)										
Production	12	13	6	4	13	22	33	32	42	36
Volume of shipments	15	8	4	4	13	29	41	34	45	37
Volume of new orders	13	15	11	11	8	19	28	37	44	36
Backlog of orders	-3	3	-15	-2	-9	2	5	18	13	12
Number of employees	-15	7	-13	-14	-7	-6	-5	15	19	21
Average employee workweek	-9	6	-6	-6	-9	-1	4	3	18	18
Prices received for finished product	10	10	4	2	13	13	0	6	12	18
Prices paid for raw materials	22	6	11	5	14	21	13	25	30	38
Capital expenditures	0	-16	-19	-18	-23	-14	-9	-7	0	5
New orders for exports	12	7	-3	3	-1	0	1	3	13	6
Supplier delivery time	-5	-3	-2	4	-4	3	3	5	4	11
Inventories: Materials	-28	-16	-20	-27	-29	-7	-16	-3	4	-2
Inventories: Finished goods	-24	-11	-24	-29	-22	-15	-21	3	7	0



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