



# 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 remained very sluggish in December but optimism about a recovery continued to build. Despite the overall weak report from manufacturers, expectations for future factory activity in the region continued to rise after bottoming out in September and October. The net percentage of firms expecting increases in production, shipments, and orders over the next six months rose to its highest level since the spring. In addition, a slightly lower percentage of firms than in the previous three surveys expect to cut workers and hours over the next six months. However, firms increasingly predict some price pressures to emerge for raw materials as production ramps back up in coming months.

A summary and the December survey data are attached to this press release. The manufacturing survey, which since October 1994 had been performed quarterly via mail, takes a snapshot of factory activity in the region by asking respondents about a variety of manufacturing indicators. Starting with the July 2001 release, information about the Tenth District's manufacturing sector is available monthly.

For more information about the monthly manufacturing survey, contact Chad Wilkerson, Economic Research Department, (816) 881-2869. The December 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 very sluggish in December but optimism about a recovery continued to build, according to a survey of plant managers in the region. Production, orders, and capital expenditures were still very weak, and employment continued to fall. However, price pressures remained in check, inventories fell further, and expectations for future production increased again. The Federal Reserve Bank of Kansas City's Survey of Manufacturers takes a snapshot of factory activity each month by asking respondents about a variety of manufacturing indicators.

After improving somewhat in November, the net percentage of firms reporting increases in production from a year ago fell back to levels similar to September and October (Tables 1 & 2). Production indexes declined among both durable- and nondurable-goods-producing plants in December. As they have throughout the current downturn, however, plants producing nondurable goods, such as food and clothing products, continued to report much better conditions than those producing durable goods, such as appliances and machinery. The Tenth District has a disproportionate share of firms in the food processing industry, which unlike most industries has actually added jobs nationally during 2001, so the better performance of nondurable manufacturers is not particularly surprising.

While sample sizes make it more difficult to draw firm conclusions about individual states, it appears from the data available that production activity remained especially weak in Colorado and western Missouri in December. Production also appeared to be slightly weaker than a year ago in Nebraska, while Kansas and Oklahoma were at or slightly above year-ago levels.

Most factory indicators besides production remained just as negative as in recent surveys. The year-over-year indexes for new orders, capital expenditures, and employee workweek were all well below zero, and new orders for exports remained weak. Moreover, the survey's employment index reached -41, which is the lowest in the seven-year history of the survey. One important index that did experience some improvement was the volume of shipments, which, while still negative, was somewhat higher in the previous three surveys.

Firms continued to reduce inventories in December. Year-over-year indexes for inventories of both raw materials and finished products remained similar to the survey lows reached in November, showing that plants may have done a better job of managing stock levels than in previous economic downturns. Supplier delivery times were largely unchanged after declining throughout the summer. Year-over-year price indexes for both raw materials and finished products also remained subdued.

Despite the overall weak report from manufacturers in December, expectations for future factory activity in the region continued to rise after bottoming out in September and October. The net percentage of firms expecting increases in production, shipments, and orders over the next six months rose to its highest level since the spring. In addition, a slightly lower percentage of firms than in the previous three surveys expect to cut workers and hours over the next six months. A relatively large percentage of firms plans to continue cutting back on capital spending, but this percentage is also lower than in the recent past. The percentage of firms expecting to reduce inventories in coming months also appears to be returning to pre-slump levels. On a somewhat negative note, however, firms increasingly predict some price pressures to emerge for raw materials as production ramps back up in coming months. The index for expected finished goods prices also remains higher than in the fall.

Table 1

## Summary of Tenth District Manufacturing Conditions, December 2001

	December vs. December (Percent)				December vs. Year Ago (Percent)				Expected in Six Months (Percent)			
	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *
<b>Plant Level Indicators</b>												
<b>Production</b>	22	34	43	-21	25	29	45	-20	49	22	27	22
<b>Volume of shipments</b>	26	31	40	-14	35	21	41	-6	53	21	24	29
<b>Volume of new orders</b>	24	25	49	-25	24	30	44	-20	45	26	26	19
<b>Backlog of orders</b>	20	39	39	-19	18	39	39	-21	27	44	25	2
<b>Number of employees</b>	8	59	30	-22	17	22	58	-41	21	49	27	-6
<b>Average employee workweek</b>	13	59	26	-13	10	54	34	-24	16	65	17	-1
<b>Prices received for finished product</b>	6	79	11	-5	29	45	24	5	24	63	11	13
<b>Prices paid for raw materials</b>	12	74	10	2	29	39	29	0	31	56	10	21
<b>Capital expenditures</b>					17	39	41	-24	15	54	29	-14
<b>New orders for exports</b>	8	64	20	-12	13	58	21	-8	16	60	16	0
<b>Supplier delivery time</b>	2	91	3	-1	10	77	11	-1	6	88	3	3
<b>Inventories:</b>												
<b>Materials</b>	8	49	37	-29	16	36	43	-27	20	46	27	-7
<b>Finished goods</b>	16	40	40	-24	16	37	43	-27	16	49	31	-15

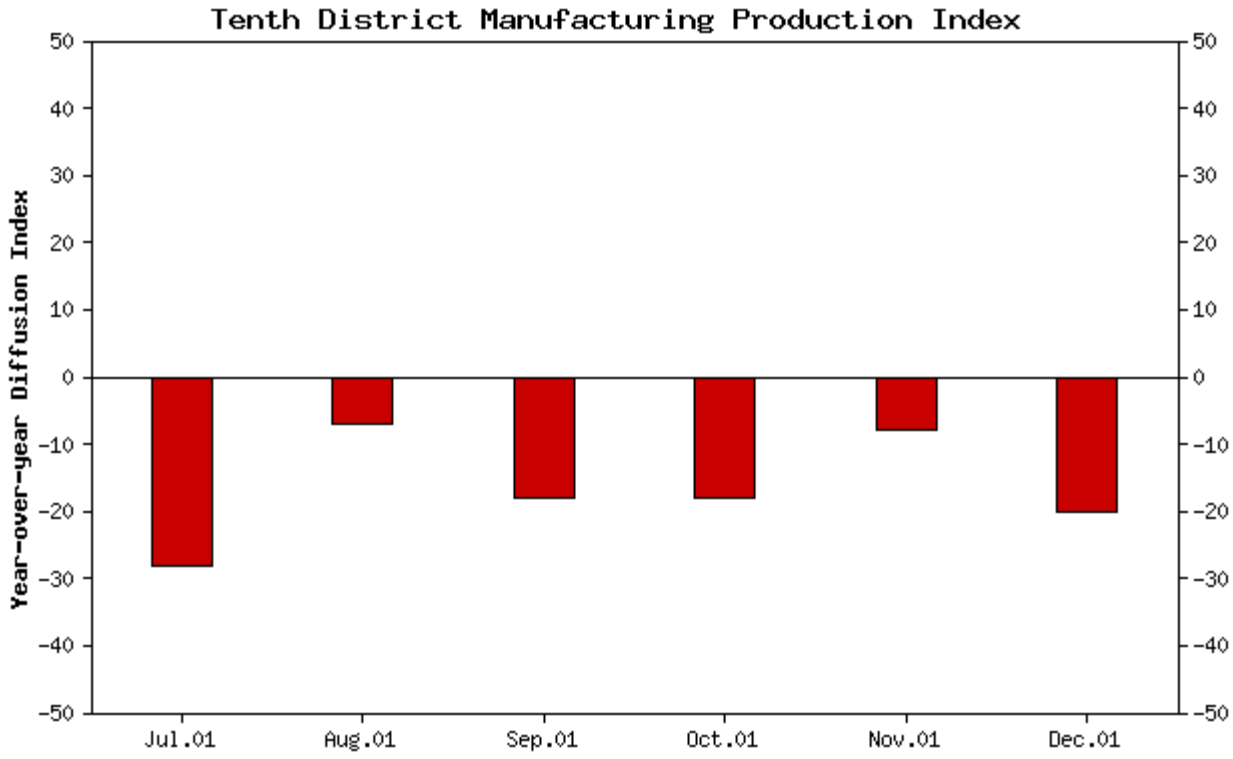
\* The diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicator from the percentage of those reporting increases. Index values greater than zero generally suggest expansion, while values less than zero indicate contraction. When index values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

Note: The December survey included 79 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
<b>Previous Month</b>						
Production	-21	22	0	6	-15	-21
Volume of shipments	-28	15	5	-1	-19	-14
Volume of new orders	-24	10	-12	-9	-25	-25
Backlog of orders	-20	-2	-26	-20	-23	-19
Number of employees	-18	-1	-17	-20	-20	-22
Average employee workweek	-12	4	-7	-12	-18	-13
Prices received for finished product	-7	0	-9	-12	-8	-5
Prices paid for raw materials	3	-3	-1	3	-3	2
Capital expenditures	0	0	0	0	0	0
New orders for exports	8	6	-1	-5	-5	-12
Supplier delivery time	1	-3	-8	-9	0	-1
Inventories: Materials	-24	-10	-12	-6	-13	-29
Inventories: Finished goods	-21	-5	-7	-6	-15	-24
<b>Previous Year</b>						
Production	-28	-7	-18	-18	-8	-20
Volume of shipments	-28	-1	-11	-16	-12	-6
Volume of new orders	-28	-12	-13	-21	-21	-20
Backlog of orders	-22	-7	-16	-19	-14	-21
Number of employees	-32	-25	-32	-34	-38	-41
Average employee workweek	-32	-5	-25	-27	-29	-24
Prices received for finished product	-5	13	3	-7	-2	5
Prices paid for raw materials	16	9	12	15	0	0
Capital expenditures	-11	-22	-25	-31	-25	-24
New orders for exports	1	-2	0	1	-8	-8
Supplier delivery time	1	-2	-1	-6	-16	-1
Inventories: Materials	-30	-15	-14	-11	-33	-27
Inventories: Finished goods	-20	-12	0	-15	-27	-27
<b>Six Months Ahead</b>						
Production	12	13	6	4	13	22
Volume of shipments	15	8	4	4	13	29
Volume of new orders	13	15	11	11	8	19
Backlog of orders	-3	3	-15	-2	-9	2
Number of employees	-15	7	-13	-14	-7	-6
Average employee workweek	-9	6	-6	-6	-9	-1
Prices received for finished product	10	10	4	2	13	13
Prices paid for raw materials	22	6	11	5	14	21
Capital expenditures	0	-16	-19	-18	-23	-14
New orders for exports	12	7	-3	3	-1	0
Supplier delivery time	-5	-3	-2	4	-4	3
Inventories: Materials	-28	-16	-20	-27	-29	-7
Inventories: Finished goods	-24	-11	-24	-29	-22	-15



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