



News Release

Federal Reserve Bank of Kansas City

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

Manufacturing activity in the Tenth Federal Reserve District remained very weak in January but optimism about a recovery continued to increase, according to a survey of plant managers in the region. Production and orders fell farther below year-ago levels, and employment and capital expenditures showed little sign of improvement. On the bright side, however, price pressures remained in check and expectations for future factory activity improved for the third month in a row.

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. A complete summary of the January survey is attached to this press release. The manufacturing survey had been performed quarterly since October 1994. 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 January 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 weak in January but optimism about a recovery continued to increase, according to a survey of plant managers in the region. Production and orders fell farther below year-ago levels, and employment and capital expenditures showed little sign of improvement. On the bright side, however, price pressures remained in check and expectations for future production and orders continued to rebound from lows reached in the fall. 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.

The net percentage of firms reporting increases in production fell farther below zero in January, reaching a new survey low of -37 (Tables 1 and 2). The decline from a year ago was due entirely to production of durable goods. Production of nondurable goods, such as clothing and food, was little changed from a year ago.

Although sample sizes make it more difficult to draw firm conclusions about states, it appears from the data available that production was weak throughout most of the district. As has been true since last summer, the biggest declines in production below year-ago levels were in Colorado and western Missouri. Production was also well below year-ago levels in Kansas, Nebraska, and Oklahoma.

Most indicators of factory activity besides production also remained very weak. The year-over-year indexes for shipments and new orders both fell farther below zero, and the indexes for number of employees, average workweek, and capital expenditures all remained highly negative.

Firms continued to show some success bringing their inventories under control, and price pressures remained subdued. The year-over-year index for inventories of raw materials matched the previous survey low, while the year-over-year index for inventories of finished products fell to a new low. For the third month in a row, prices for both raw materials and finished products were about even with year-ago levels.

The most positive news from the survey is that expectations for future factory activity improved for the third month in a row. The net percentages of firms expecting increases in production, shipments, and orders over the next six months rose to their highest levels since the beginning of last year. Also, firms expect both the number of employees and the average workweek to remain relatively stable over the next six months. More firms still expect to cut capital spending in coming months than expect to increase such spending, but the difference is not as large as it was in the fall. Firms expect some increase in raw material prices over the next six months as production picks up. However, firms do not anticipate significant changes in product prices, suggesting that they still find it difficult to raise their own prices.

Table 1

Summary of Tenth District Manufacturing Conditions, January 2002

Plant Level Indicators	January vs. December (Percent)				January vs. Year Ago (Percent)				Expected in Six Months (Percent)			
	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *	Increase	No Change	Decrease	Index *
Production	33	38	27	6	18	26	55	-37	51	30	18	33
Volume of shipments	33	29	37	-4	22	19	58	-36	56	27	15	41
Volume of new orders	38	31	27	11	20	27	50	-30	47	30	19	28
Backlog of orders	22	52	22	0	16	38	43	-27	23	55	18	5
Number of employees	12	65	20	-8	15	27	56	-41	20	54	25	-5
Average employee workweek	16	63	19	-3	13	51	33	-20	19	65	15	4
Prices received for finished product	6	76	15	-9	27	45	25	2	15	68	15	0
Prices paid for raw materials	13	72	12	1	27	41	29	-2	25	61	12	13
Capital expenditures					16	45	37	-21	13	63	22	-9
New orders for exports	13	61	15	-2	11	58	19	-8	12	68	11	1
Supplier delivery time	5	90	2	3	6	79	13	-7	8	86	5	3
Inventories:												
Materials	23	52	20	3	15	34	48	-33	15	50	31	-16
Finished goods	26	44	26	0	13	36	47	-34	15	45	36	-21

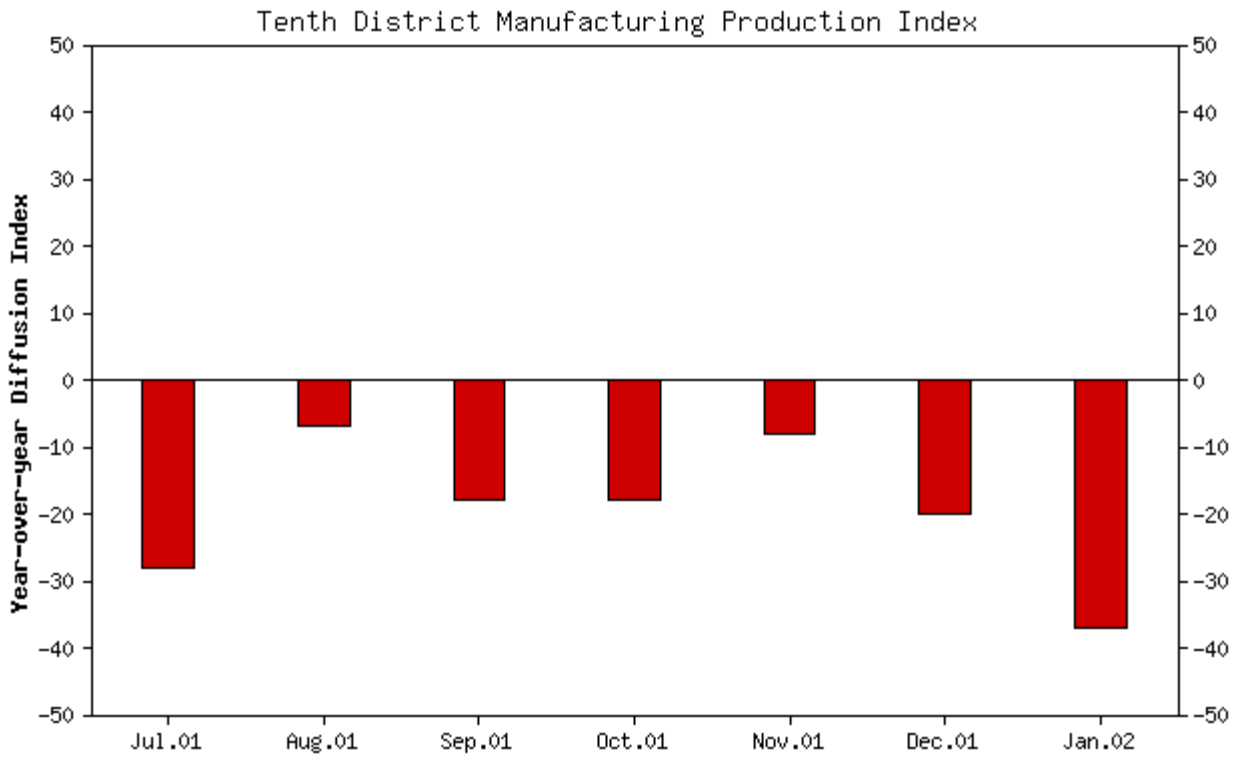
* The diffusion index is calculated by subtracting the percentage of total respondents reporting decreases in a given indicator from the percentage of those reporting increases. Index values greater than zero generally suggest expansion, while values less than zero indicate contraction. When index values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

Note: The January survey included 72 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
Previous Month							
Production	-21	22	0	6	-15	-21	6
Volume of shipments	-28	15	5	-1	-19	-14	-4
Volume of new orders	-24	10	-12	-9	-25	-25	11
Backlog of orders	-20	-2	-26	-20	-23	-19	0
Number of employees	-18	-1	-17	-20	-20	-22	-8
Average employee workweek	-12	4	-7	-12	-18	-13	-3
Prices received for finished product	-7	0	-9	-12	-8	-5	-9
Prices paid for raw materials	3	-3	-1	3	-3	2	1
Capital expenditures	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
Supplier delivery time	1	-3	-8	-9	0	-1	3
Inventories: Materials	-24	-10	-12	-6	-13	-29	3
Inventories: Finished goods	-21	-5	-7	-6	-15	-24	0
Previous Year							
Production	-28	-7	-18	-18	-8	-20	-37
Volume of shipments	-28	-1	-11	-16	-12	-6	-36
Volume of new orders	-28	-12	-13	-21	-21	-20	-30
Backlog of orders	-22	-7	-16	-19	-14	-21	-27
Number of employees	-32	-25	-32	-34	-38	-41	-41
Average employee workweek	-32	-5	-25	-27	-29	-24	-20
Prices received for finished product	-5	13	3	-7	-2	5	2
Prices paid for raw materials	16	9	12	15	0	0	-2
Capital expenditures	-11	-22	-25	-31	-25	-24	-21
New orders for exports	1	-2	0	1	-8	-8	-8
Supplier delivery time	1	-2	-1	-6	-16	-1	-7
Inventories: Materials	-30	-15	-14	-11	-33	-27	-33
Inventories: Finished goods	-20	-12	0	-15	-27	-27	-34
Six Months Ahead							
Production	12	13	6	4	13	22	33
Volume of shipments	15	8	4	4	13	29	41
Volume of new orders	13	15	11	11	8	19	28
Backlog of orders	-3	3	-15	-2	-9	2	5
Number of employees	-15	7	-13	-14	-7	-6	-5
Average employee workweek	-9	6	-6	-6	-9	-1	4
Prices received for finished product	10	10	4	2	13	13	0
Prices paid for raw materials	22	6	11	5	14	21	13
Capital expenditures	0	-16	-19	-18	-23	-14	-9
New orders for exports	12	7	-3	3	-1	0	1
Supplier delivery time	-5	-3	-2	4	-4	3	3
Inventories: Materials	-28	-16	-20	-27	-29	-7	-16
Inventories: Finished goods	-24	-11	-24	-29	-22	-15	-21



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