
Survey of Tenth District Manufacturers

By William R. Keeton

Manufacturing activity in the Kansas City Federal Reserve District expanded in July but at a slightly slower pace than earlier in the year, according to a quarterly survey of manufacturers across the district. The survey takes a snapshot of manufacturing the first month of each quarter by asking plant managers about a variety of manufacturing indicators (Table 1). By most measures, manufacturing showed a modest expansion during July. Inventories of raw materials and finished goods were generally unchanged at district factories. Prices received for finished goods held steady, while prices of raw materials increased modestly. Overall, manufacturing remained stronger than a year ago, and manufacturers were optimistic about the outlook for the next six months.

Indicators of recent activity

Production grew modestly across the district in July, at a pace slightly slower than in April. The production index was 13 in July, down from 19 in April (Chart 1). Production remained moderately above year-ago levels.

Most other indicators of current manufacturing activity in the district also suggested expansion in July. Shipments and new orders both increased slightly, recording smaller gains than in April. Supplier delivery times edged up, while order backlogs were stable. Capital expenditures were up modestly from a year ago. As in the previous survey, export orders increased slightly over the previous month.

Inventories generally held steady in July. The indexes for finished goods and raw materials were only marginally positive, indicating little change in factory stockpiles. Compared with a year ago, respondents held slightly larger inventories of both raw materials and finished goods.

Employment rose at district factories in July, showing slightly bigger gains than in April.

The average employee workweek also increased slightly. Plant work force levels and the average workweek were both up from a year ago.

Prices for raw materials increased modestly, at about the same pace as in April. As in the previous survey, prices for finished goods generally held steady. Prices for materials and finished goods were both somewhat higher than a year ago.

The outlook

District manufacturers remain optimistic about the near-term outlook. Indexes of activity expected in the next six months continue to signal expansion. The index of future production was 44 in July, up from 39 in April. Respondents expect factory jobs and the average workweek to increase in coming months. Prices of finished goods and raw materials are expected to rise somewhat, with materials prices continuing to outpace finished goods prices. Little change is anticipated in inventories of raw materials and finished goods, in contrast to April when modest declines in stocks were expected. District manufacturers remain upbeat about national business conditions, expressing about the same degree of optimism as in the last survey.

William R. Keeton is a senior economist at the Federal Reserve Bank of Kansas City. Information on the development of the manufacturing survey appeared in "Tenth District Survey of Manufacturers" by Tim R. Smith, which was published in the Fourth Quarter 1995 issue of the *Economic Review*.

Chart 1
Tenth District Manufacturing Production Index

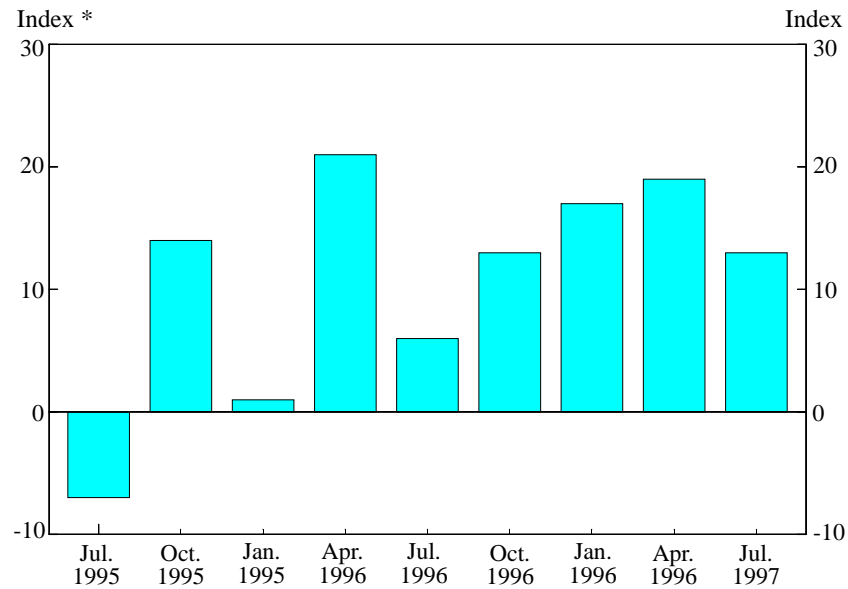


Table 1
Summary of Tenth District Manufacturing Conditions, July 1997

Plant level indicators	July vs. June (percent)				July 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	34	43	21	13	58	23	19	39	56	31	12	44
Volume of shipments	34	38	28	6	57	22	21	36	57	27	15	42
Volume of new orders	30	45	24	6	52	24	24	28	54	28	17	37
Backlog of orders	23	52	23	0	34	39	24	10	31	47	19	12
Number of employees	29	60	11	18	48	28	24	24	35	54	10	25
Average employee workweek	18	70	12	6	28	57	15	13	19	69	12	7
Prices received for finished product	7	83	9	-2	35	43	20	15	26	63	10	16
Prices paid for raw materials	20	73	5	15	49	33	16	33	36	56	7	29
Capital expenditures	—	—	—	—	38	34	25	13	40	45	13	27
New orders for exports	15	65	7	8	27	51	10	17	29	54	5	24
Supplier delivery time	9	85	5	4	12	80	6	6	10	84	5	5
Inventories:												
Materials	25	52	22	3	37	34	27	10	23	49	27	-4
Finished goods	28	45	25	3	35	36	27	8	26	48	24	2
Industry activity, national level	29	57	13	16	57	23	19	38	46	40	12	34

* 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 July survey included 198 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.