
Survey of Tenth District Manufacturers

By Ricardo C. Gazel

Manufacturing activity in the Kansas City Federal Reserve District was flat in October, according to a quarterly survey of manufacturers across the district. The unchanged activity level followed a small decline in July, suggesting that manufacturing activity continues to slow down in 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, growth in the manufacturing sector slowed further from the July survey, indicating that the recent weakness of manufacturing at the national level has finally arrived in the district. Moreover, seasonal factors may have biased the survey numbers in an upward direction, and the slowdown in activity may be even stronger than indicated by the flat index in October. The overall decline in almost all indicators seems to confirm a general weakness in the sector. Inventories of finished goods increased slightly following a marginal decline in the last survey. Prices received for finished goods declined for the fourth consecutive quarter, likely due to strong competition from Asian producers in domestic and foreign markets. Prices of raw materials also declined in October, probably also a result of the Asian crisis.

Overall, district manufacturing remained above the national average, but only slightly stronger than a year ago. Manufacturers still expect positive growth in the next six months, but their level of optimism declined further from what it was in July and is well below levels registered one year ago.

Indicators of recent activity

Factory production in the district was flat in October, following a marginal contraction in July (Chart 1). Historically, the production index has

always increased from July to October, suggesting that the index could have been even weaker if seasonal factors were taken into account. Factory production remained higher than a year ago, but at a level half of that of July, confirming the general weaker performance in October compared with the previous survey.

Most other indicators of current manufacturing activity in the district pointed to a slowdown in October, despite marginal gains in both shipments and new orders after edging down in July. Backlogs decreased once more, but at a rate almost three times as large as in July. Supplier delivery times declined as well. New orders from exports also declined, suggesting that slower overall economic growth in foreign markets has finally reduced export demand from district plants. Capital expenditures edged down compared with the previous year, following a modest increase in the previous survey.

Inventories for finished goods were up slightly in October, returning to an upward trend after a marginal decline in July. Inventories for raw materials were virtually unchanged in October after growing for six straight quarters. Manufacturers held slightly larger inventories for both finished goods and raw materials than a year ago, but were below levels reported in July.

Confirming the overall slowdown, both employment at district factories and the average employee workweek declined in October following marginal job gains and a marginal decline in the average workweek in July. Compared with one year ago, the plant work force was virtually unchanged while the average workweek was up only marginally. Despite no recent gains in employment, the district manufacturing sector continued to outperform the nation. For example, district manufacturing employment in September was 1.2 percent higher

Chart 1
Tenth District Manufacturing Production Index

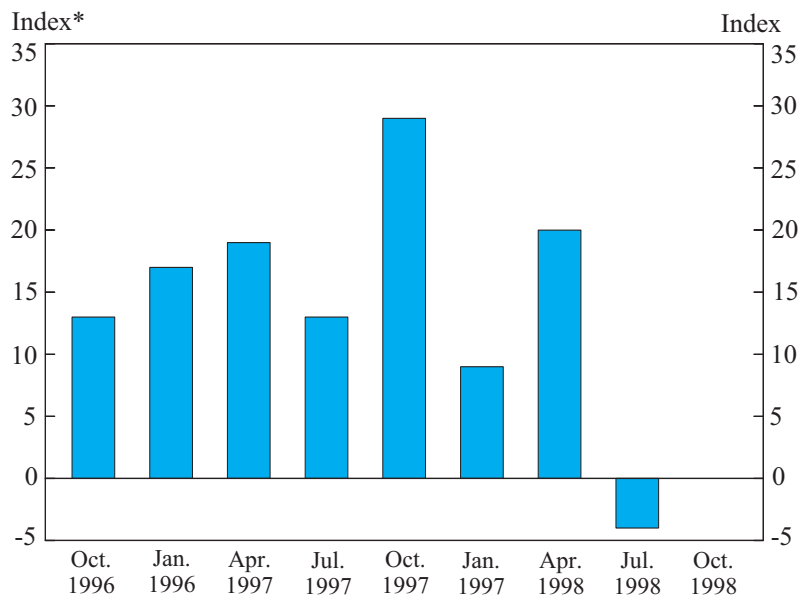


Table 1
Summary of Tenth District Manufacturing Conditions, October 1998

Plant level indicators	October vs. September (percent)				October 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	28	44	28	0	45	22	33	12	40	34	26	14
Volume of shipments	35	33	32	3	43	21	36	7	41	31	28	13
Volume of new orders	35	31	34	1	39	25	36	3	42	33	25	17
Backlog of orders	18	47	35	-17	26	38	36	-10	23	52	24	-1
Number of employees	16	59	25	-9	34	33	33	1	23	55	22	1
Average employee workweek	16	61	22	-6	26	51	23	3	11	64	25	-14
Prices received for finished product	4	81	15	-11	26	46	28	-2	21	60	18	3
Prices paid for raw materials	3	73	23	-20	29	33	38	-9	21	62	17	4
Capital expenditures	—	—	—	—	31	37	32	-1	24	50	27	-3
New orders for exports	12	61	27	-15	15	56	29	-14	20	65	15	5
Supplier delivery time	3	89	8	-5	8	84	9	-1	6	86	8	-2
Inventories:												
Materials	22	57	22	0	34	42	25	9	13	48	38	-25
Finished goods	29	48	22	7	32	41	27	5	17	50	32	-15
Industry activity, national level	24	45	32	-8	34	24	41	-7	37	33	31	6

* 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 146 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

than a year ago, well above the flat rate of growth for the nation.

Prices for finished goods declined in October for the fourth consecutive survey, while prices for raw materials declined for the first time since the survey started in October 1994. Prices for finished goods and raw materials were both slightly higher than a year ago.

The outlook

District manufacturers remain cautiously optimistic about the near future, although over the past three quarters they have become increasingly less optimistic. Most indicators of manufacturing's future performance are still positive; however, all point to further slowdown in activity over the next six months. For example, the index of future production declined from 53 in January to 44 April, to 38 in July, and stands now at 15. Similarly, the index for future shipments declined from 53 in January, to 43 in April, to 36 in July, and down

once again to 13 in October. Consistent with this less optimistic view of the future, managers expect factory jobs to remain almost flat and the average employee workweek to shorten in coming months. The index of number of employees declined from 19 in July to 1 in October, while the average employee workweek decreased as well from 4 in July to -12 in October. Moreover, respondents expect prices to reflect the overall slowdown in activity, with only marginal rises in prices for both finished goods and raw materials. District manufacturers remain even less optimistic about industry activity at the national level, as the index declined from 28 in July to 7 in October. In summary, the Asian flu and its overall impact in the U.S. manufacturing sector appear to have finally reached the district.

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