

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

*Production activity contracted further in October;
Manufacturers less optimistic*

Overview

Manufacturing activity in the central Atlantic region contracted more sharply in October, according to the Richmond Fed's latest survey. The index of overall activity was pushed lower as shipments, new orders, and employment retreated further into negative territory. All other indicators suggested additional weakness. District contacts reported that orders backlogs and capacity utilization remained in negative territory and declined from their previous month's readings. Moreover, vendor delivery times turned negative, while inventories grew at a slightly quicker pace.

Looking forward, assessments of business prospects for the next six months were less optimistic in October. Contacts at firms anticipated slower growth in shipments, and negative growth in backlogs, capital expenditures and employment.

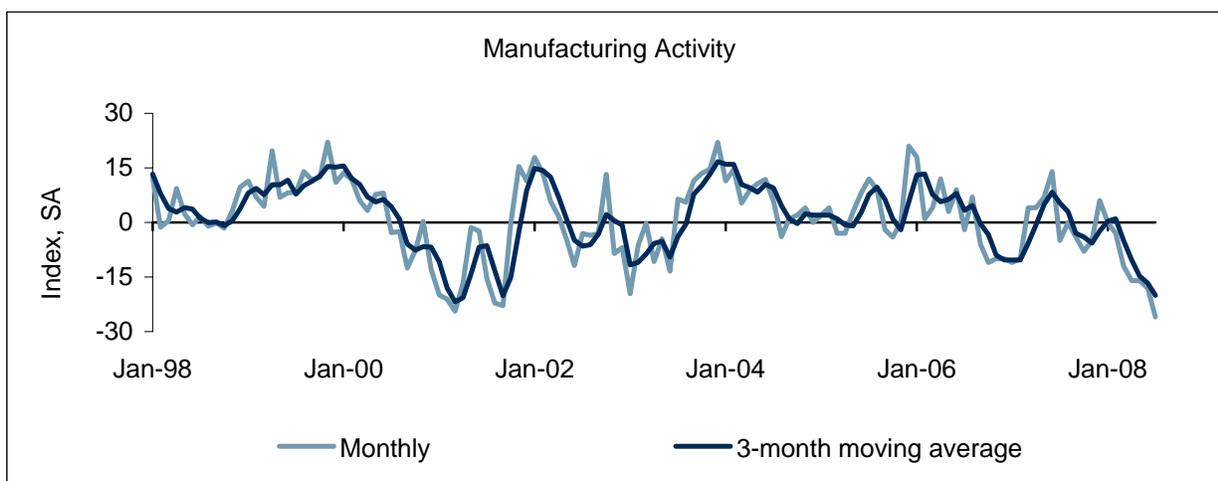
Survey assessments of prices were mixed in October. Raw materials prices grew at a slightly slower pace, while finished goods prices grew at a

somewhat quicker pace. Looking ahead, respondents indicated that they expected price growth to advance a bit more quickly over the next six months.

Current Activity

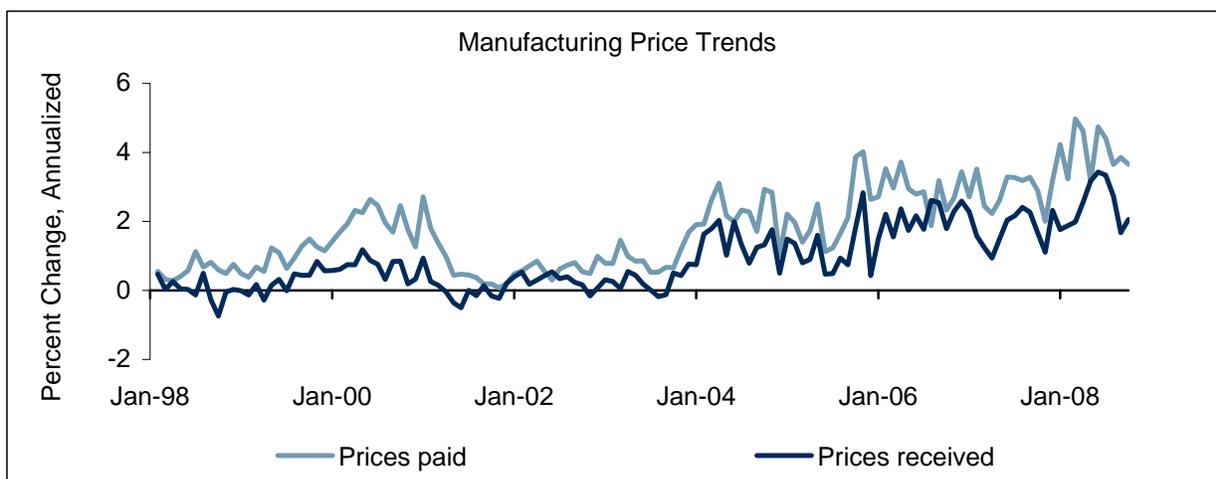
In October, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—decreased to -26 from September's reading of -18. Among the index's components, shipments lost eight points to -24, new orders fell twelve points to -35, and the jobs index edged down two points to finish at -15.

Other indicators also suggested weaker activity. Vendor delivery times turned negative, losing nine points to end at -9 and the orders backlogs shed sixteen points to -40. Moreover, the capacity utilization index declined twelve points to -27, while our gauges for inventories grew at a slightly quicker pace in October than in September. The finished goods inventory index advanced five points to 33, while the raw materials inventory



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index added two points to finish at 27.

Employment

Labor market activity at District plants weakened in October as firms downsized staff, reduced the workweek and scaled back paychecks. The employment index registered a -15 versus September's reading of -13, and the average workweek indicator dropped twelve points to -14. In addition, the wage index posted a two-point loss to -4.

Expectations

In the October survey, our contacts were generally less positive about their business prospects for the next six months. The index of expected shipments fell five points to 6, while the new orders and backlogs indicators were virtually unchanged at 6 and -1, respectively. In addition, capacity utilization held steady at 5, while vendor delivery times stayed in negative territory but picked up two points to end at -4. Moreover, readings on planned capital expenditures were negative for the second consecutive month; the index registered a twelve-point loss to end at -18.

District manufacturers' hiring plans for coming months were mixed in October. The expected manufacturing employment index declined eleven points to -19, while the average workweek index

moved up seven points to end at -3. In contrast, the expected wage index posted a seven-point gain to 29.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 3.66 percent in October compared with September's reading of 3.85 percent. Finished goods prices rose at a 2.06 percent pace—somewhat above September's reading of 1.68 percent. Looking forward, respondents expected that the prices they pay will advance at a 4.19 percent pace—slightly above their 3.83 percent reading in September. In addition, contacts looked for finished goods prices to increase at a 2.51 percent annual rate during the next six months—somewhat higher than the previous month's expectation of 1.94 percent.

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Business Activity Indexes ¹						
	Current Conditions			Expectations ²		
	Oct	Sept	Aug	Oct	Sept	Aug
General business assessment						
Fifth District Manufacturing Index ³	-26	-18	-16	--	--	--
Company conditions						
Shipments	-24	-16	-13	6	11	6
Volume of new orders	-35	-23	-22	6	5	10
Backlog of orders	-40	-24	-22	-1	0	4
Capacity utilization	-27	-15	-20	5	5	5
Vendor lead-time	-9	0	5	-4	-6	-1
Number of employees	-15	-13	-12	-19	-8	-3
Average workweek	-14	-2	-12	-3	-10	-6
Wages	-4	-2	11	29	22	15
Capital Expenditures	--	--	--	-18	-6	4
Inventory levels						
Finished goods inventories	33	28	33	--	--	--
Raw materials inventories	27	25	27	--	--	--
Price trends⁴						
Prices paid	3.66	3.85	3.65	4.19	3.83	4.05
Prices received	2.06	1.68	2.74	2.51	1.94	2.10

Notes:

- Each index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. Data are seasonally adjusted. Results are based on responses from 88 of 174 firms surveyed.
- Expectations refer to the time period six months out from the survey period.
- The Manufacturing Index is a gauge of broad activity in the District's manufacturing sector. It is a composite index representing a weighted average of the shipments (33 percent), new orders (40 percent) and employment (27 percent) indexes. All firms surveyed are located within the Fifth Federal Reserve District, which includes the District of Columbia, Maryland, North Carolina, South Carolina, Virginia, and most of West Virginia.
- Price changes are expressed as a percent change, annualized.