

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Continued to Deteriorate in November; Price Growth Declines

Overview

Manufacturing activity in the central Atlantic region declined further this month, according to the Richmond Fed's latest survey. All broad indicators of activity—shipments, new orders, and employment—contracted again in November, following steep declines in October. Weakness was also evident in all other indicators. District contacts reported that orders backlogs and capacity utilization retreated further into negative territory and declined from October's readings. Moreover, vendor delivery times contracted at a pace on par with October, while growth in inventories changed little.

Looking ahead, manufacturers' optimism about future business prospects edged higher in November. Contacts at firms anticipated that growth in shipments, new orders and capacity utilization would grow a bit more rapidly during the next six months.

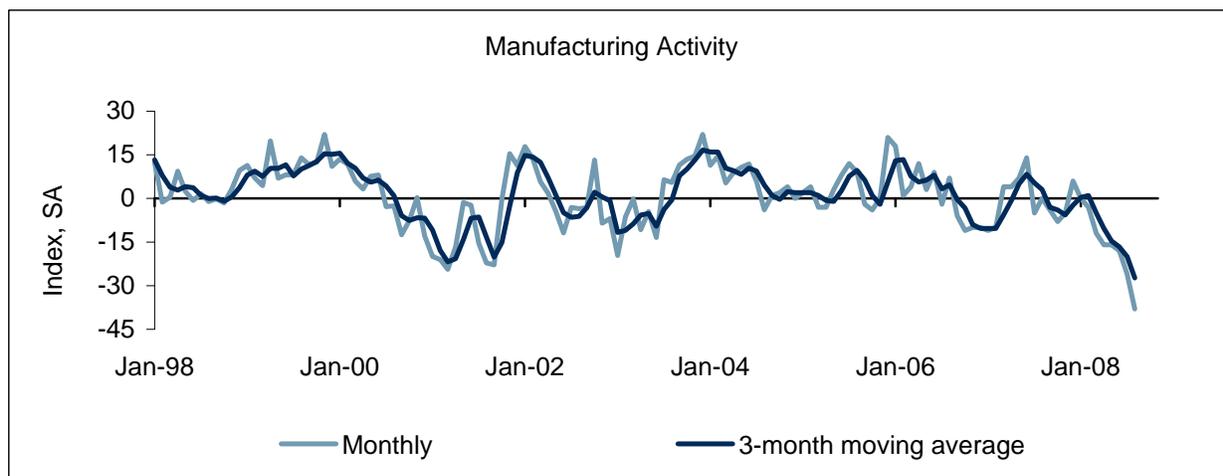
With respect to prices, raw materials prices pulled back notably to the lowest level since July 2005, while finished goods prices registered its first

negative reading since September 2003. For the next six months, respondents told us that they expected growth in both raw material and finished goods prices to rise roughly on pace with October's readings.

Current Activity

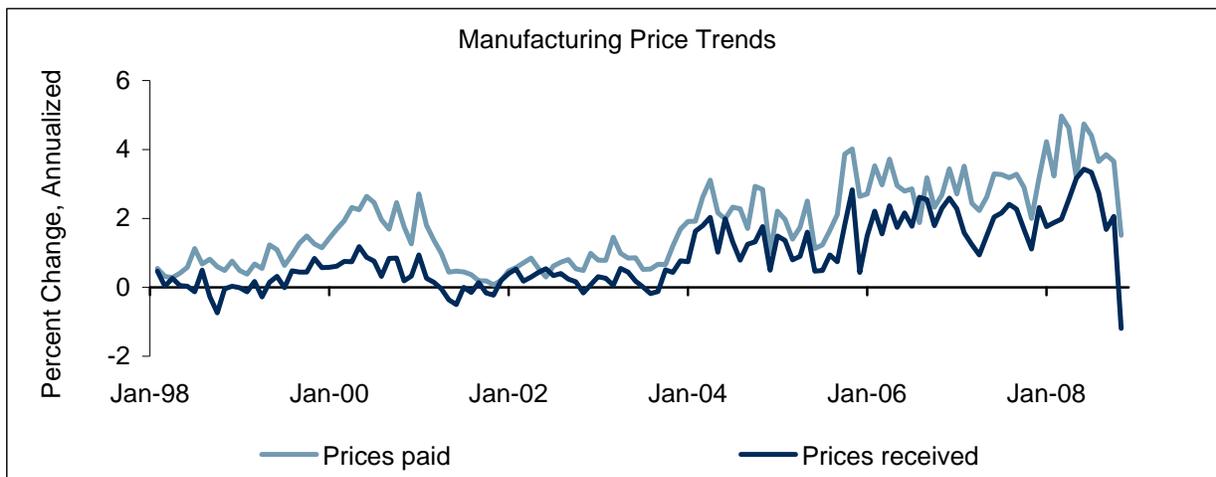
In November, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—decreased to -38 from October's reading of -26. Among the index's components, shipments lost seven points to -31, new orders fell thirteen points to -48, and the jobs index plummeted seventeen points to finish at -32.

Other indicators also suggested weaker activity. The capacity utilization index declined seven points to -34 and the orders backlogs shed five points to -45. Furthermore, vendor delivery times held steady at -9, while our gauges for inventories changed little in November from October. The finished goods inventory index edged up two points to 35, while the raw materials inventory index added one point to finish at 28.



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Employment

Labor market activity at District plants weakened further in November as firms continued to lay off staff, shorten the workweek and scale back paychecks. The employment index registered a -32 versus October's reading of -15, and the average workweek indicator dropped sixteen points to -30. In addition, the wage index was virtually unchanged at -3.

Expectations

In the November survey, our contacts were slightly more confident about their business prospects for the next six months. The index of expected shipments increased six points to 12, and the new orders indicator moved up eight points to end at 14. In addition the orders backlogs index edged up two points to 1. Vendor delivery times held steady at -4, and capacity utilization picked up eight points to 13. Moreover, readings on planned capital expenditures were negative for the third consecutive month; the index registered a seventeen-point loss to end at -35.

District manufacturers' hiring plans for coming months were mixed in November. The expected manufacturing employment index advanced two points to -17, while the average workweek index moved up eleven points to end at 8. Additionally, the expected wage index stayed on pace—matching its October reading of 29.

Prices

District manufacturers reported that price pressures eased markedly in November. Raw materials prices increased at an average annual rate of 1.51 percent in November—a notable pullback from October's reading of 3.66 percent. Finished goods prices fell at a -1.19 percent pace—a series low and well below October's reading of 2.06 percent. Looking forward, respondents expected that the prices they pay will advance at a 4.20 percent pace—nearly matching their 4.19 percent reading in October. In addition, contacts looked for finished goods prices to increase at a 2.65 percent annual rate during the next six months—little changed from the previous month's expectation of 2.51 percent.

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Business Activity Indexes ¹						
	Current Conditions			Expectations ²		
	Nov	Oct	Sept	Nov	Oct	Sept
General business assessment						
Fifth District Manufacturing Index ³	-38	-26	-18	--	--	--
Company conditions						
Shipments	-31	-24	-16	12	6	11
Volume of new orders	-48	-35	-23	14	6	5
Backlog of orders	-45	-40	-24	1	-1	0
Capacity utilization	-34	-27	-15	13	5	5
Vendor lead-time	-9	-9	0	-4	-4	-6
Number of employees	-32	-15	-13	-17	-19	-8
Average workweek	-30	-14	-2	8	-3	-10
Wages	-3	-4	-2	29	29	22
Capital Expenditures	--	--	--	-35	-18	-6
Inventory levels						
Finished goods inventories	35	33	28	--	--	--
Raw materials inventories	28	27	25	--	--	--
Price trends⁴						
Prices paid	1.51	3.66	3.85	4.20	4.19	3.83
Prices received	-1.19	2.06	1.68	2.65	2.51	1.94

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 87 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.