

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Production Activity Deteriorates Further in December; But Manufacturers Remain Optimistic

Overview

The contraction in manufacturing activity in the central Atlantic region deepened this month, according to the Richmond Fed's latest survey. The index of overall activity was pushed sharply lower as shipments, new orders, and employment slid further into negative territory. Evidence of continued weakness was also seen in all other indicators. District contacts reported that orders backlogs and capacity utilization retreated further into negative territory and declined from November's readings. Moreover, vendor delivery times contracted, while growth in inventories remained on pace with November.

Looking forward, assessments of business prospects for the next six months were generally more optimistic in December. Contacts at more firms anticipated that shipments, new orders, backlogs and capacity utilization would grow during the next six months.

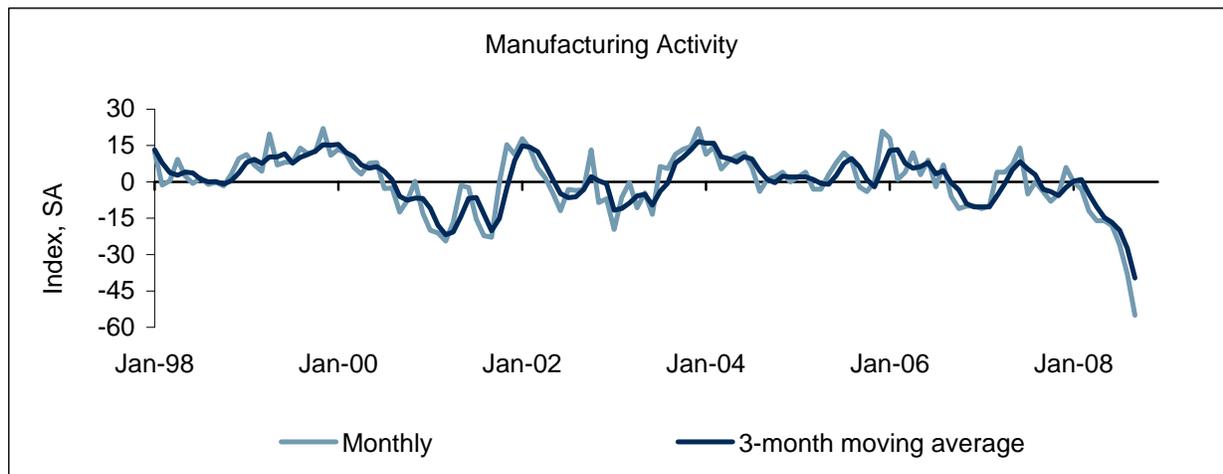
On the price front, both raw materials and finished goods prices grew at a quicker pace in December. Looking ahead, respondents said in December

that they expected growth in both raw materials and finished goods prices to rise more slowly during the first half of 2009 than they expected in November.

Current Activity

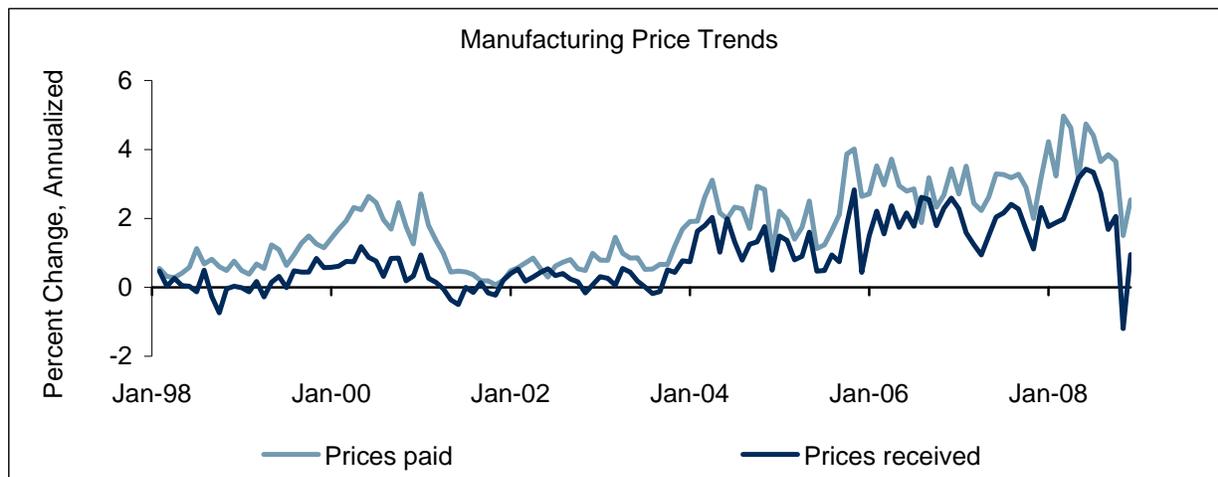
In December, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—decreased to -55 from November's reading of -38. Among the index's components, shipments plummeted twenty-four points to -55, new orders fell eighteen points to -66, and the jobs index pulled back eight points to finish at -40.

Other indicators also suggested weaker activity. The capacity utilization index dropped sixteen points to -50 and the orders backlogs declined fourteen points to -59. Furthermore, vendor delivery times shed five points to -14. Meanwhile, our gauges for inventories changed little in December from November; the finished goods inventory index edged down three points to 32, while the raw materials inventory index added two points to finish at 30.



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Employment

Labor market conditions at District plants weakened further in December as firms continued to downsize their staff, reduce the workweek and scale back paychecks. The employment index registered a -40 versus November's reading of -32, and the average workweek indicator dropped seventeen points to -47. In addition, the wage index fell five points to -8.

Expectations

In the December survey, our contacts were generally more optimistic about their business prospects for the next six months. The index of expected shipments increased fifteen points to 27, and the new orders indicator moved up thirteen points to end at 27. Moreover, the orders backlogs index jumped seventeen points to 18. Vendor delivery times picked up six points to 2, and capacity utilization leaped nineteen points to 32. In contrast, readings on planned capital expenditures were negative for the fourth consecutive month but picked up thirty points this month to end at -5.

District manufacturers' hiring plans in December were mixed. The expected manufacturing employment index held steady at -17, while the average workweek index moved up thirteen points to end at 21. Additionally, the expected wage index posted a three-point gain to 32.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 2.54 percent in December—a sharp up tick from November's reading of 1.51 percent. Finished goods prices also posted a marked increase from November, rising at a 0.95 percent pace in December compared to last month's series low of -1.19 percent. Looking ahead, respondents expected that the prices they pay will advance at a 1.64 percent pace—down considerably from their 4.20 percent forecast in November. Additionally, contacts looked for finished goods prices to increase at a 1.62 percent annual rate during the next six months—down notably from the previous month's expectation of 2.65 percent.

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Business Activity Indexes ¹						
	Current Conditions			Expectations ²		
	Dec	Nov	Oct	Dec	Nov	Oct
General business assessment						
Fifth District Manufacturing Index ³	-55	-38	-26	--	--	--
Company conditions						
Shipments	-55	-31	-24	27	12	6
Volume of new orders	-66	-48	-35	27	14	6
Backlog of orders	-59	-45	-40	18	1	-1
Capacity utilization	-50	-34	-27	32	13	5
Vendor lead-time	-14	-9	-9	2	-4	-4
Number of employees	-40	-32	-15	-17	-17	-19
Average workweek	-47	-30	-14	21	8	-3
Wages	-8	-3	-4	32	29	29
Capital Expenditures	--	--	--	-5	-35	-18
Inventory levels						
Finished goods inventories	32	35	33	--	--	--
Raw materials inventories	30	28	27	--	--	--
Price trends⁴						
Prices paid	2.54	1.51	3.66	1.64	4.20	4.19
Prices received	0.95	-1.19	2.06	1.62	2.65	2.51

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 92 of 144 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.