January 27, 2009

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Shows Less Deterioration in January; Outlook Remains Generally Positive

Overview

Manufacturing activity in the central Atlantic region continued to be depressed this month, according to the Richmond Fed's latest survey. Our broadest indicators of activity—shipments, new orders, and employment—remained in negative territory and lingered close to the all-time lows reached in December. Correspondingly, continued weakness was also evident in all other broad indicators. District contacts reported that orders backlogs and capacity utilization remained negative but improved from December's readings. Moreover, vendor delivery times contracted at a pace on par with December, while manufacturers reported quicker growth in inventories.

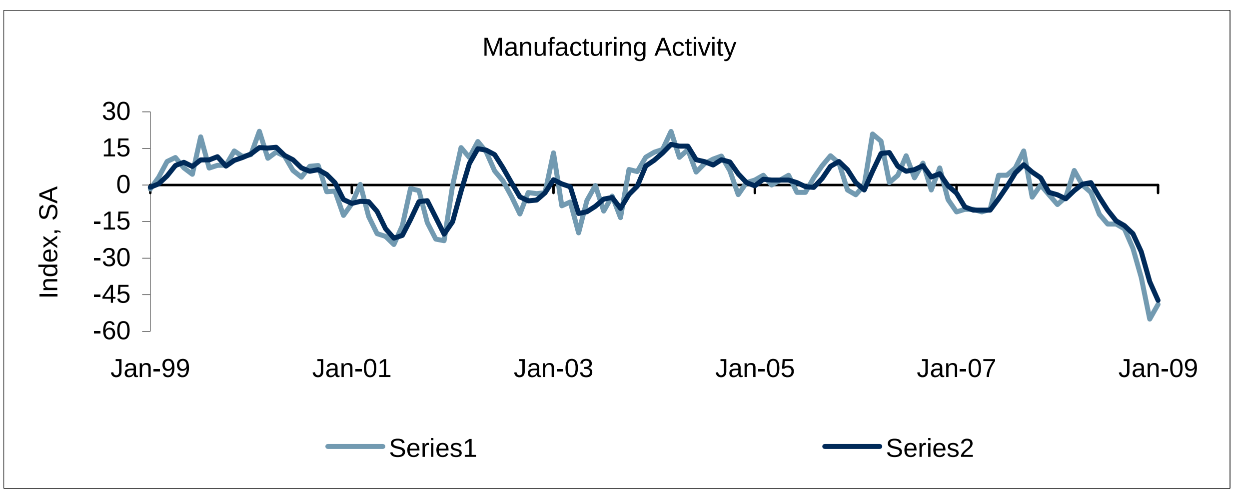
Looking ahead, manufacturers' optimism about future business prospects edged generally higher in January. Contacts at more firms anticipated that shipments, new orders, and backlogs would grow more quickly during the next six months. In contrast, contacts expected negative growth in capital expenditures during the next six months.

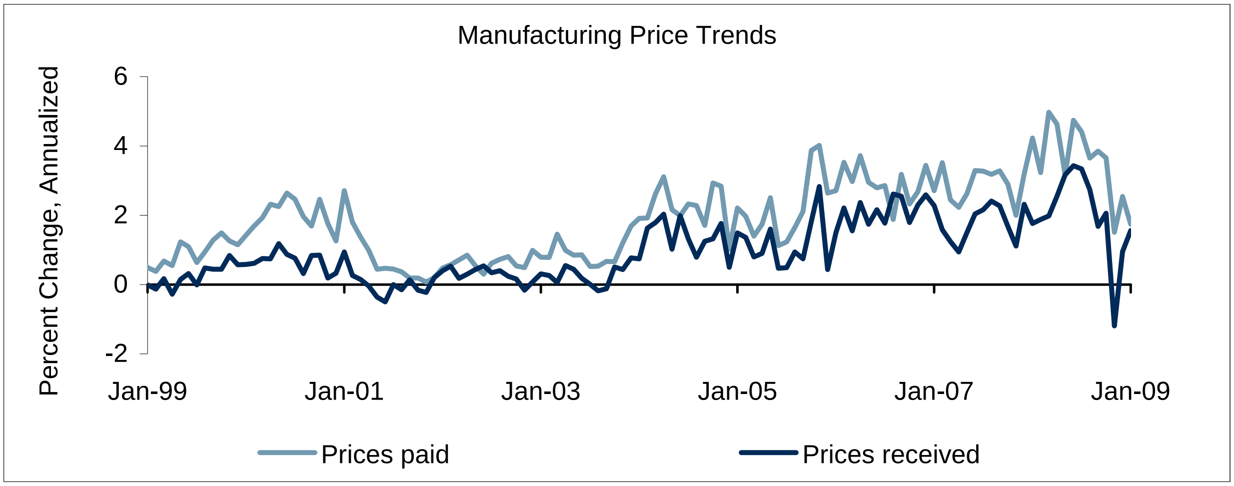
Survey assessments of current prices revealed that raw materials prices grew at a more measured pace in January, while finished goods prices grew at a slightly quicker rate. Looking ahead, respondents said in January that they expected growth in both raw materials and finished goods prices to rise more quickly during the next six months than they expected in December.

Current Activity

In January, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—remained negative, although it improved to -49 from December's reading of -55. Among the index's components, shipments was virtually unchanged at -54, new orders picked up sixteen points to finish at -50, and the jobs index held steady at -40.

Other indicators also suggested a slight improvement in activity although conditions in the sector remained bleak. The capacity utilization index inched up four points to -46 and the orders backlogs measure increased eighteen points to -41. Furthermore, vendor delivery times were unchanged at -14. Meanwhile, our gauges for





inventories grew at a slightly quicker pace in January from December; the finished goods inventory index added ten points to 42, and the raw materials inventory index edged up two points to finish at 32.

Employment

Labor market conditions changed little at District factories in January. The employment index held steady at -40, while the average workweek indicator moved up six points to -41. In addition, the wage index added five points to -3.

Expectations

In the January survey, our contacts were generally more optimistic about their business prospects for the next six months. The index of expected shipments increased three points to 30, and the new orders indicator moved up seven points to end at 34. Moreover, the orders backlogs index picked up five points to 23. Vendor delivery times slipped two points to 0, and capacity utilization lost eight points to 24. Furthermore, readings on planned capital expenditures were negative for the fifth consecutive month—retreating fourteen points this month to end at -19.

District manufacturers' hiring plans in January were mixed. The expected manufacturing employment index edged up two points to end at -15, while the average workweek index shed eleven points to end at 10. Additionally, the expected wage index posted an eighteen-point loss to 14.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.74 percent in January—a notable pullback from December's reading of 2.54 percent. Finished goods prices, however, rose at a 1.56 percent pace—somewhat above December's reading of 0.95. Looking ahead, respondents expected that the prices they pay will advance at a 3.07 percent pace—up considerably from their 1.64 percent forecast in December. Additionally, contacts looked for finished goods prices to increase at a 1.69 percent annual rate during the next six months compared to last month's expectation of 1.62 percent.

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Business Activity Indexes[1]

	Current Conditions			Expectations[2]		
	Jan	Dec	Nov	Jan	Dec	Nov
General business assessment						
Fifth District Manufacturing Index[3]	-49	-55	-38	--	--	--
Company conditions						
Shipments	-54	-55	-31	30	27	12
Volume of new orders	-50	-66	-48	34	27	14
Backlog of orders	-41	-59	-45	23	18	1
Capacity utilization	-46	-50	-34	24	32	13
Vendor lead-time	-14	-14	-9	0	2	-4
Number of employees	-40	-40	-32	-15	-17	-17
Average workweek	-41	-47	-30	10	21	8
Wages	-3	-8	-3	14	32	29
Capital Expenditures	--	--	--	-19	-5	-35
Inventory levels						
Finished goods inventories	42	32	35	--	--	--
Raw materials inventories	32	30	28	--	--	--
Price trends[4]						
Prices paid	1.74	2.54	1.51	3.07	1.64	4.20
Prices received	1.56	0.95	-1.19	1.69	1.62	2.65

Notes:

1 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 91 of 144 firms surveyed.

2 Expectations refer to the time period six months out from the survey period.

3 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.

4 Price changes are expressed as a percent change, annualized.