

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Contraction Persists in February; Optimism Wanes and Price Growth Slows*

### Overview

Manufacturing activity in the central Atlantic region declined further 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 fell from their already low levels in January. Weakening conditions were also evident in all other indicators. District contacts reported that orders backlogs retreated further into negative territory, while capacity utilization remained negative but improved slightly from its January's reading. Vendor delivery times contracted at a quicker pace than last month, while manufacturers reported that growth in inventories remained on pace with January.

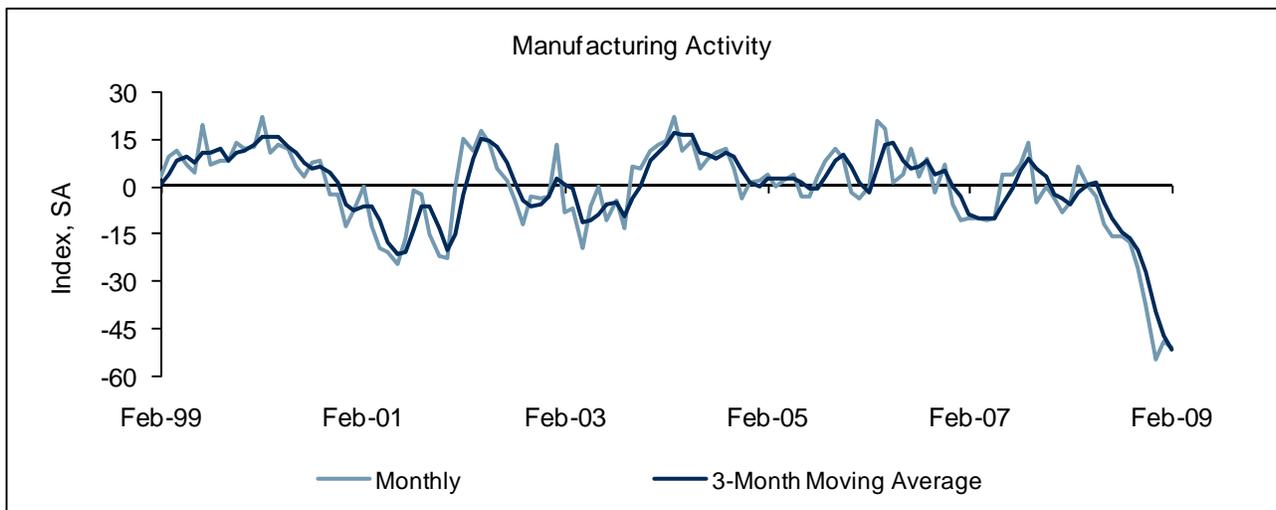
Looking forward, assessments of business prospects for the next six months were less optimistic in February. Contacts at more firms anticipated slower growth in shipments, new orders, backlogs, and capacity utilization. Moreover, contacts expected negative growth in capital expenditures during the next six months.

Survey assessments of current prices revealed that growth in both raw materials and finished goods prices pulled back notably in February. Over the next six months, respondents told us that they expected growth in both raw materials and finished goods prices to rise more slowly than they expected in January.

### Current Activity

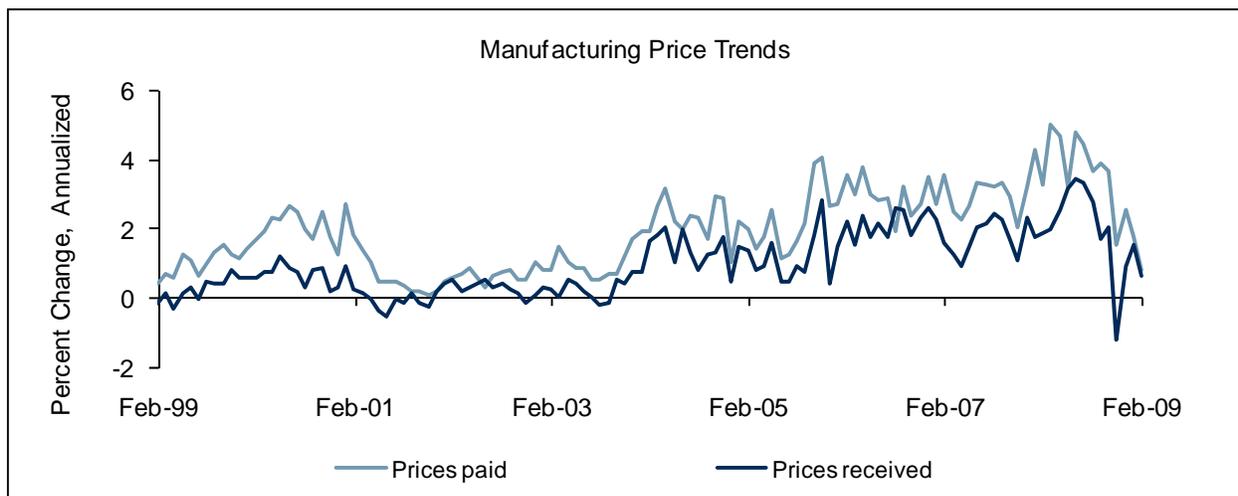
In February, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—decreased to -51 from January's reading of -49. Among the index's components, shipments slipped two points to -56, new orders inched down four points to finish at -54, and the jobs index was virtually unchanged at -41.

Other indicators also suggested further weakening. The orders backlogs measure decreased ten points to -51 and vendor delivery times lost eight points to end at -22. Moreover, the capacity utilization index edged up two points to -44, while our gauges for inventories changed little in February. The finished goods inventory index



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trimmed two points to 40, while the raw materials inventory index advanced two points to finish at 34.

#### Employment

Labor market conditions remained bleak at District factories in February as plants were shuttered, layoffs deepened, and wages and benefits contracted. The employment index held nearly steady at -41, while the average workweek indicator moved down four points to -45. In contrast, the wage index fell six points to -9.

#### Expectations

In the February survey, our contacts were generally less positive about their business prospects for the next six months than they were in January. The index of expected shipments fell nine points to 21, and the new orders indicator plunged twenty points to end at 14. Moreover, the orders backlogs index dropped twelve points to 11 and capacity utilization index eased three points to 21. Furthermore, readings on planned capital expenditures were negative for the sixth consecutive month—losing five points this month to end at -24. On the other hand, vendor delivery times picked up four points to 4.

District manufacturers' hiring plans for coming months were mixed. The expected manufacturing employment index moved up one point to end at -14, although the average workweek index shed four points to 6, and the expected wage index

posted a two-point gain to 16.

#### Prices

Prices continued to grow at a more measured pace in February. District manufacturers reported that raw materials prices increased at an average annual rate of 0.81 percent in February—a considerable pullback from January's reading of 1.74 percent. Finished goods prices rose at a 0.64 percent pace—also a sizeable drop from January's reading of 1.56. Looking forward, respondents expected that the prices they pay will advance at a 2.60 percent pace—down somewhat from their 3.07 percent forecast in January. Contacts looked for finished goods prices to increase at a 0.74 percent annual rate during the next six months—also well below last month's expectation of 1.69 percent.

#### Contact

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Business Activity Indexes <sup>1</sup>						
	Current Conditions			Expectations <sup>2</sup>		
	Feb	Jan	Dec	Feb	Jan	Dec
<b>General business assessment</b>						
Fifth District Manufacturing Index <sup>3</sup>	-51	-49	-55	--	--	--
<b>Company conditions</b>						
Shipments	-56	-54	-55	21	30	27
Volume of new orders	-54	-50	-66	14	34	27
Backlog of orders	-51	-41	-59	11	23	18
Capacity utilization	-44	-46	-50	21	24	32
Vendor lead-time	-22	-14	-14	4	0	2
Number of employees	-41	-40	-40	-14	-15	-17
Average workweek	-45	-41	-47	6	10	21
Wages	-9	-3	-8	16	14	32
Capital Expenditures	--	--	--	-24	-19	-5
<b>Inventory levels</b>						
Finished goods inventories	40	42	32	--	--	--
Raw materials inventories	34	32	30	--	--	--
<b>Price trends<sup>4</sup></b>						
Prices paid	0.81	1.74	2.54	2.60	3.07	1.64
Prices received	0.64	1.56	0.95	0.74	1.69	1.62

### 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 94 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.

