

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Production Activity Deteriorates Less in March; Price Growth Declines*

### Overview

Manufacturing activity in the central Atlantic region contracted at a less pronounced rate this month, according to the Richmond Fed's latest survey. Our broadest indicators of overall activity—shipments, new orders and employment—remained in negative territory but moved up from their record low levels in January and February. Evidence of more moderate weakness was also reflected in all other indicators. District contacts reported that orders backlogs, capacity utilization and vendor delivery times were still down but improved from February. In addition, manufacturers reported somewhat higher growth in finished goods inventories.

Looking ahead, the outlook for business prospects over the next six months was generally in line with last month's readings. Firms looked for sluggish growth in shipments, new orders, backlogs, and capacity utilization, while expecting somewhat less negative growth in capital expenditures during the next six months.

Survey assessments also revealed that growth in both raw materials and finished goods prices declined in March. Over the next six months, respondents told us that they expected growth in raw materials and finished goods prices to rise more quickly than they expected in February.

### Current Activity

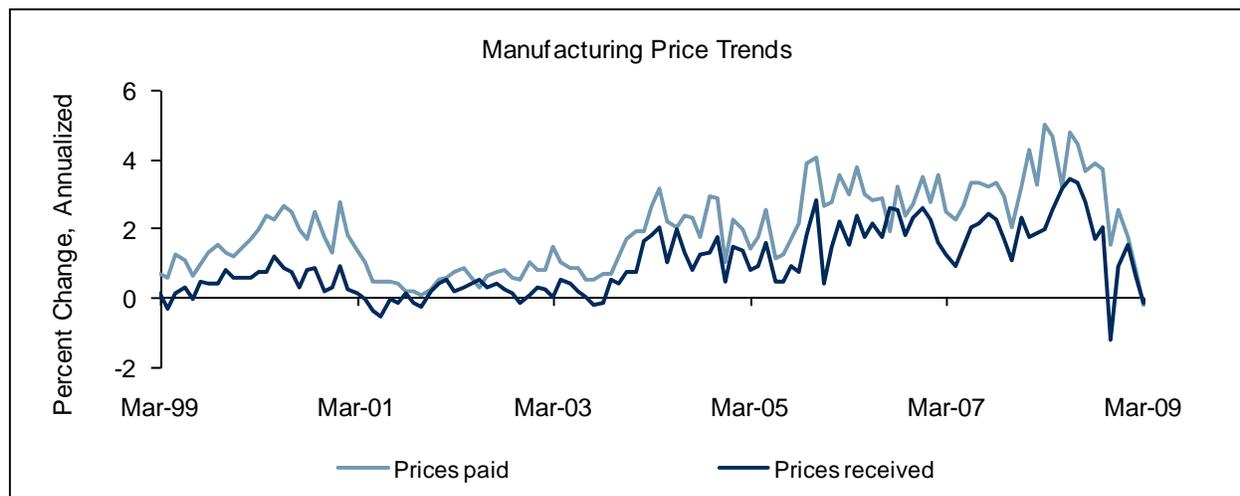
In March, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—remained negative, although it improved to -20 from February's reading of -51. Among the index's components, shipments jumped forty-one points to -15, new orders rose thirty-four points to finish at -20, and the jobs index picked up thirteen points to end at -28.

Other indicators also suggested more moderate weakness. The orders backlogs measure increased fourteen points to -37 and vendor delivery times inched up six points to end at -16. Moreover, the capacity utilization index leaped thirty points to -14, while our gauges for inventories were mixed in March. The finished goods inventory



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index advanced four points to 44, while the raw materials inventory index was virtually unchanged at 33.

#### Employment

Labor market conditions remained grim but displayed more moderate weakness at District plants in March. The employment index moved up thirteen points to -28, and the average workweek indicator increased fifteen points to -30. Additionally, the wage index picked up seven points to -2.

#### Expectations

In our March survey, assessments of business prospects for the next six months remained generally on par with February. The index of expected shipments increased three points to 24, and the new orders indicator added eight points to end at 22. Moreover, the capacity utilization index picked up six points to 27, while vendor delivery times fell two points to 2. Readings on planned capital expenditures were negative for the seventh consecutive month—but gained eight points in March to end at -16. In contrast, the orders backlog index was virtually unchanged at 10.

District manufacturers' hiring plans in March were little changed from last month, even though respondents reported more moderate weakness in employment. The expected manufacturing employment index advanced six points to end at -8, while the average workweek index held steady

at 6. In contrast, the expected wage index posted a twelve-point loss to 4.

#### Prices

District manufacturers reported that raw materials prices decreased at an average annual rate of -0.22 percent in March—a considerable pullback from February's reading of 0.81 percent. Finished goods prices fell at a -0.15 percent pace—also a sizeable drop from February's reading of 0.64. Looking forward, respondents expected that the prices they pay will advance at a 2.71 percent pace—little changed from the previous month's expectation of 2.60 percent. Contacts looked for finished goods prices to increase at a 1.07 percent annual rate during the next six months compared to last month's expectation of 0.74 percent.

#### Contact

##### Judy Cox

Senior Economic Analyst  
Regional Economics Department  
The Federal Reserve Bank of Richmond Office  
Ph: 804-697-8152 · Fax: 804-697-8123  
[judy.cox@rich.frb.org](mailto:judy.cox@rich.frb.org)  
[www.richmondfed.org](http://www.richmondfed.org)

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Business Activity Indexes <sup>1</sup>						
	Current Conditions			Expectations <sup>2</sup>		
	Mar	Feb	Jan	Mar	Feb	Jan
<b>General business assessment</b>						
Fifth District Manufacturing Index <sup>3</sup>	-20	-51	-49	--	--	--
<b>Company conditions</b>						
Shipments	-15	-56	-54	24	21	30
Volume of new orders	-20	-54	-50	22	14	34
Backlog of orders	-37	-51	-41	10	11	23
Capacity utilization	-14	-44	-46	27	21	24
Vendor lead-time	-16	-22	-14	2	4	0
Number of employees	-28	-41	-40	-8	-14	-15
Average workweek	-30	-45	-41	6	6	10
Wages	-2	-9	-3	4	16	14
Capital Expenditures	--	--	--	-16	-24	-19
<b>Inventory levels</b>						
Finished goods inventories	44	40	42	--	--	--
Raw materials inventories	33	34	32	--	--	--
<b>Price trends<sup>4</sup></b>						
Prices paid	-0.22	0.81	1.74	2.71	2.60	3.07
Prices received	-0.15	0.64	1.56	1.07	0.74	1.69

#### 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 90 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.