

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Contraction Ebbs in April; Expectations Strengthen and Prices Edge Higher

Overview

Manufacturing activity in the central Atlantic region contracted at a markedly diminished pace in April, according to the Richmond Fed's latest survey. Our broadest indicators of overall activity—shipments, new orders and employment—remained in negative territory but the rate of decline moderated considerably from our last report. Evidence of diminished weakness was also reflected in all other indicators. District contacts reported that orders backlogs and vendor delivery times remained negative but improved from March's readings, while capacity utilization was virtually unchanged. In addition, manufacturers reported somewhat slower growth in inventories.

Looking forward, assessments of business prospects for the next six months were more optimistic in April. Contacts at more firms anticipated that shipments, new orders, backlogs, and capacity utilization would grow more quickly during the next six months than they expected in March, while expecting slightly less negative growth in capital expenditures.

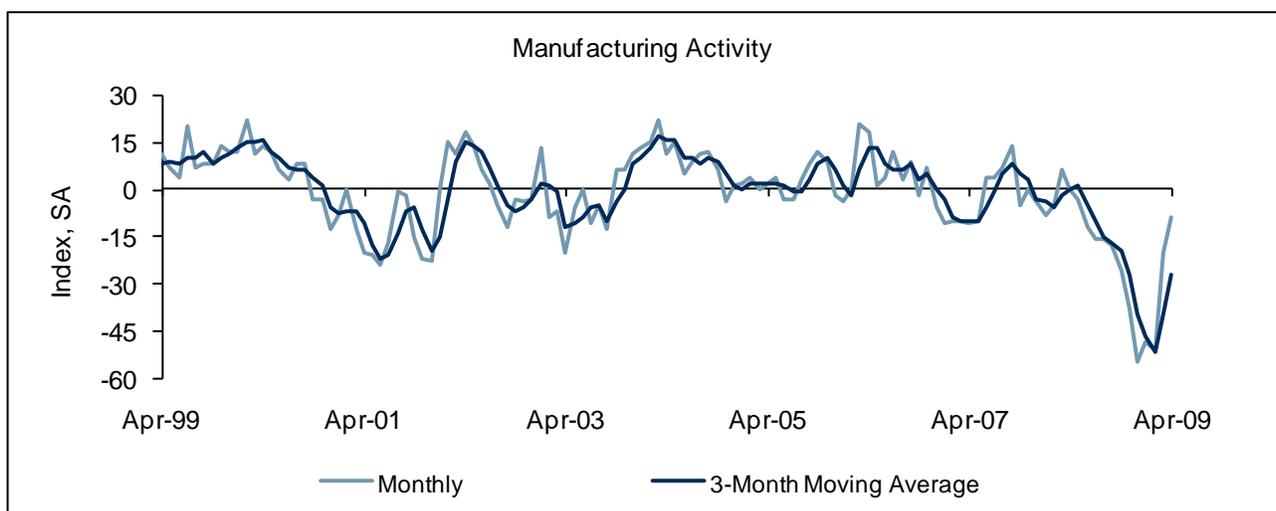
Survey assessments also revealed that growth in both raw materials and finished goods prices

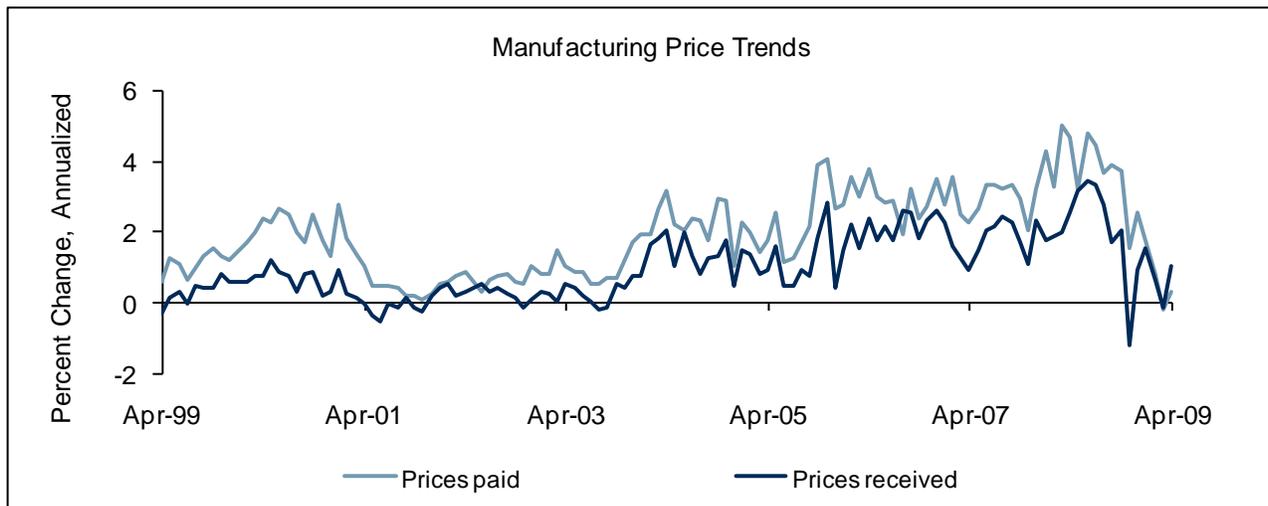
turned positive in April. Over the next six months, respondents told us that they expected growth in raw materials prices to rise roughly on pace with March's expectations, while they anticipated price growth in finished goods to increase more slowly.

Current Activity

In April, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—contracted at a less pronounced rate to -9 from March's reading of -20. Among the index's components, shipments gained twelve points to -3, new orders rose eighteen points to finish at -2, and the jobs index edged up two points to end at -26.

Other indicators also suggested more moderate weakness. The orders backlogs measure jumped twenty-two points to -15 and vendor delivery times inched up seven points to end at -9. Moreover, the capacity utilization index held almost steady at -13, while our gauges for inventories grew at a slightly slower pace in April than they did in March. The finished goods inventory index dropped four points to 40, and the raw materials inventory index trimmed six points to 27.





Employment

Weak labor market conditions persisted in April although there were indications that the weakness was abating. The employment index moved up two points to -26, and the average workweek indicator leaped twenty-three points to -7. Additionally, the wage index picked up three points to 1.

Expectations

In our April survey, our contacts were more confident about their business prospects for the next six months. The index of expected shipments increased seven points to 31, the new orders indicator added seven points to end at 29, and orders backlogs inched up four points to 14. Moreover, the capacity utilization index edged up two points to 29, while vendor delivery times rose four points to 6. Readings on planned capital expenditures were negative for the eighth consecutive month—but the index picked up one point in April to end at -15.

District manufacturers' hiring plans were more positive in April as well. The expected manufacturing employment index turned positive, gaining nine points to end at 1, and the average workweek index increased four points to end at 10. In addition, the expected wage index posted an eight-point gain to 12.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 0.28 percent in April compared with March's reading of -0.22 percent. Finished goods prices rose at a 1.01 percent pace—a notable increase from March's reading of -0.15. Looking forward, respondents expected that the prices they pay will advance at a 2.81 percent pace—little changed from the previous month's expectation of 2.71 percent. Contacts looked for finished goods prices to increase at a 0.74 percent annual rate during the next six months compared to last month's expectation of 1.07 percent.

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Business Activity Indexes ¹						
	Current Conditions			Expectations ²		
	Apr	Mar	Feb	Apr	Mar	Feb
General business assessment						
Fifth District Manufacturing Index ³	-9	-20	-51	-	-	-
Company conditions						
Shipments	-3	-15	-56	31	24	21
Volume of new orders	-2	-20	-54	29	22	14
Backlog of orders	-15	-37	-51	14	10	11
Capacity utilization	-13	-14	-44	29	27	21
Vendor lead-time	-9	-16	-22	6	2	4
Number of employees	-26	-28	-41	1	-8	-14
Average workweek	-7	-30	-45	10	6	6
Wages	1	-2	-9	12	4	16
Capital Expenditures	--	--	--	-15	-16	-24
Inventory levels						
Finished goods inventories	40	44	40	-	-	-
Raw materials inventories	27	33	34	-	-	-
Price trends⁴						
Prices paid	0.28	-0.22	0.81	2.81	2.71	2.60
Prices received	1.01	-0.15	0.64	0.74	1.07	0.74

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 88 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.

