

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Increases in May After 12 Months of Decline; Shipments and New Orders Rise

Overview

Manufacturing activity in the central Atlantic region rebounded sharply, according to the Richmond Fed's May survey. The index of overall activity expanded for the first time in 12 months behind strong increases in shipments and new orders. Other indicators were mixed, however. Employment, backlogs, and vendor delivery times contracted, though at a slower pace, while capacity utilization turned positive. In addition, manufacturers reported somewhat slower growth in inventories.

Looking ahead, the outlook for business prospects over the next six months was in line with last month's readings. Contacts at more firms anticipated steady growth in shipments, new orders, backlogs, and capacity utilization during the next six months. Despite a marked improvement from last month, expected capital expenditures remained virtually stagnant in May.

Survey assessments also revealed that raw materials prices grew at a quicker pace in May, while finished goods prices grew more slowly. Over the next six months, respondents told us that

they expected growth in both raw materials and finished goods prices to grow at slightly slower rates than they had anticipated last month.

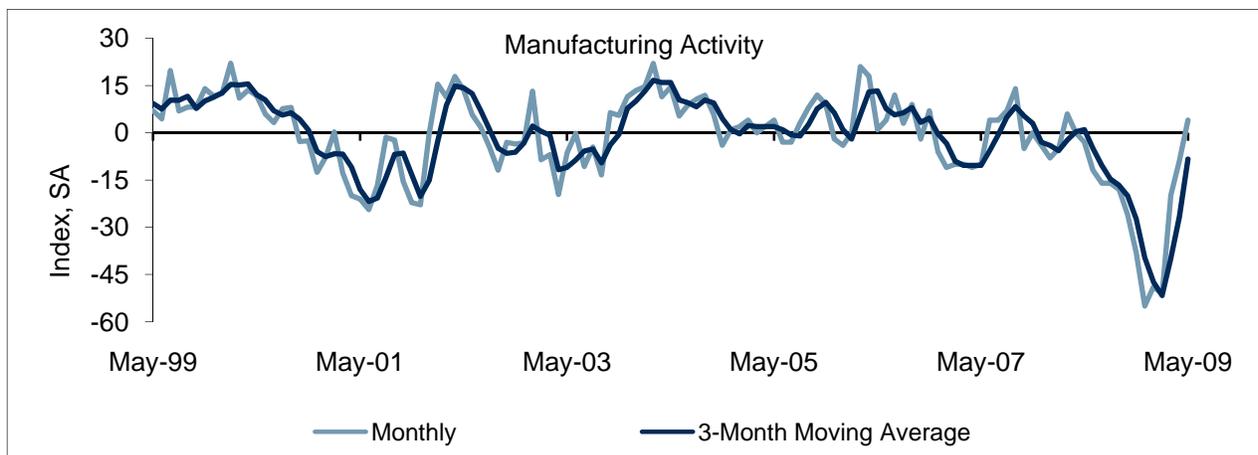
Current Activity

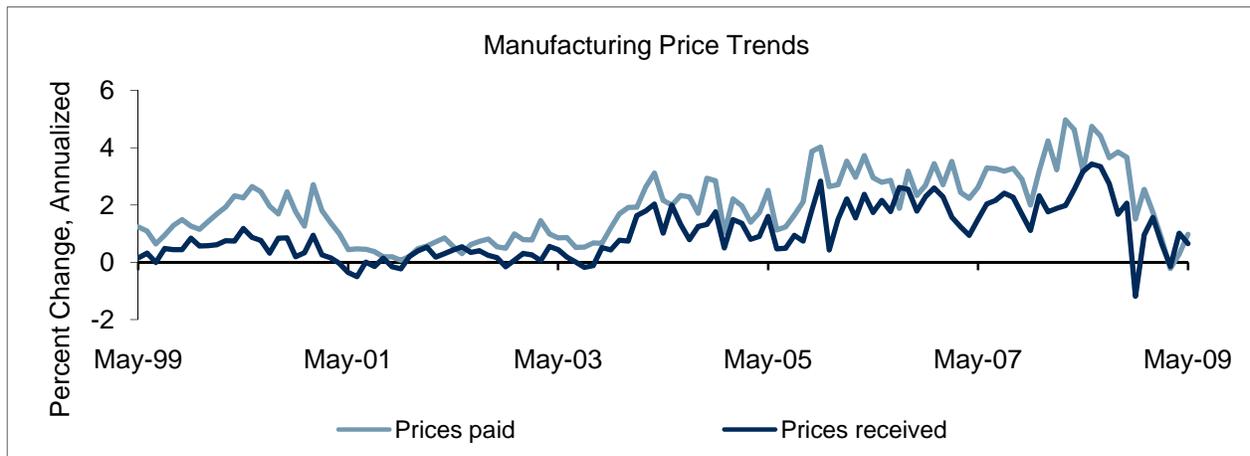
In May, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—jumped to 4 from April's reading of -9. Among the index's components, shipments gained twelve points to 9, new orders rose twelve points to finish at 10, and the jobs index advanced fourteen points to end at -12.

Other indicators varied. The orders backlogs and vendor delivery times did not quite escape negative territory but gained twelve and five points, respectively. The capacity utilization index turned positive, picking up eighteen points to 5, while our gauges for inventories grew at a slightly slower pace in May than they did in April. The finished goods inventory index dropped five points to 35, and the raw materials inventory index trimmed six points to 21.

Employment

Labor market conditions firmed somewhat in May. The employment index registered a -12 versus last





month's reading of -26, and the average workweek moved up twelve points to 5. Additionally, the wage index added four points to 5.

Expectations

In our May survey, our contacts remained confident about their business prospects during the next six months. The index of expected shipments edged down three points to 28, the new orders indicator eased two points to end at 27, and orders backlogs were virtually unchanged at 13. Moreover, the capacity utilization index gave up two points to 27, while vendor delivery times rose seven points to 13. Readings on planned capital expenditures were negative for the ninth consecutive month—but just barely—as the index picked up fourteen points in May to end at -1.

District manufacturers' hiring plans were mixed in May. The expected manufacturing employment index was little changed at 2, while the average workweek index declined four points to end at 6. In addition, the expected wage index posted a one-point loss to 11.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 0.97 percent in May compared with April's reading of 0.28 percent. Finished goods prices rose at a 0.65 percent pace versus last month's reading of 1.01 percent. Looking ahead, respondents expected that the prices they pay will advance at a

2.63 percent pace—little changed from the previous month's expectation of 2.81 percent. Contacts looked for finished goods prices to increase at a 0.66 percent annual rate during the next six months compared to last month's expectation of 0.74 percent.

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Business Activity Indexes¹

	Current Conditions			Expectations ²		
	May	Apr	Mar	May	Apr	Mar
General business assessment						
Fifth District Manufacturing Index ³	4	-9	-20	-	-	-
Company conditions						
Shipments	9	-3	-15	28	31	24
Volume of new orders	10	-2	-20	27	29	22
Backlog of orders	-3	-15	-37	13	14	10
Capacity utilization	5	-13	-14	27	29	27
Vendor lead-time	-4	-9	-16	13	6	2
Number of employees	-12	-26	-28	2	1	-8
Average workweek	5	-7	-30	6	10	6
Wages	5	1	-2	11	12	4
Capital Expenditures	--	--	--	-1	-15	-16
Inventory levels						
Finished goods inventories	35	40	44	-	-	-
Raw materials inventories	21	27	33	-	-	-
Price trends⁴						
Prices paid	0.97	0.28	-0.22	2.63	2.81	2.71
Prices received	0.65	1.01	-0.15	0.66	0.74	1.07

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 89 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.