

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Picks Up the Pace in June; New Orders Rise; Optimism Wanes a Bit

Overview

Manufacturing activity in the central Atlantic region advanced somewhat faster in June, according to the Richmond Fed's latest survey. Looking at the main components of activity, new orders expanded further, while factory shipments grew at a slightly slower rate and employment exhibited more moderate weakness. Other indicators were mostly positive. Backlogs increased for the first time since August 2007, while vendor delivery times stabilized and capacity utilization edged higher. In addition, manufacturers reported somewhat quicker growth in finished goods inventories.

Despite the recent increases in activity, manufacturers softened their outlook for the next six months. Contacts at more firms anticipated that their shipments, new orders, and capacity utilization would grow less rapidly in the months ahead.

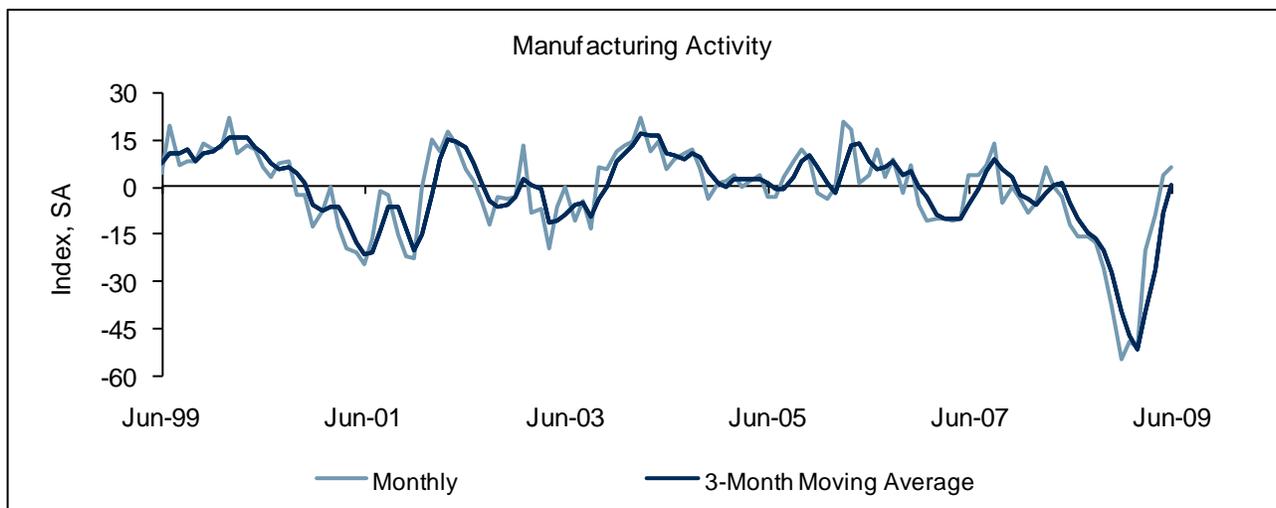
Survey measures of prices were mixed in June. Raw materials prices grew at a slower pace in

June, while finished goods prices grew more quickly. Over the next six months, respondents told us that they expected little change in growth in raw materials prices from what they had anticipated last month, but expected slightly faster growth in finished goods prices.

Current Activity

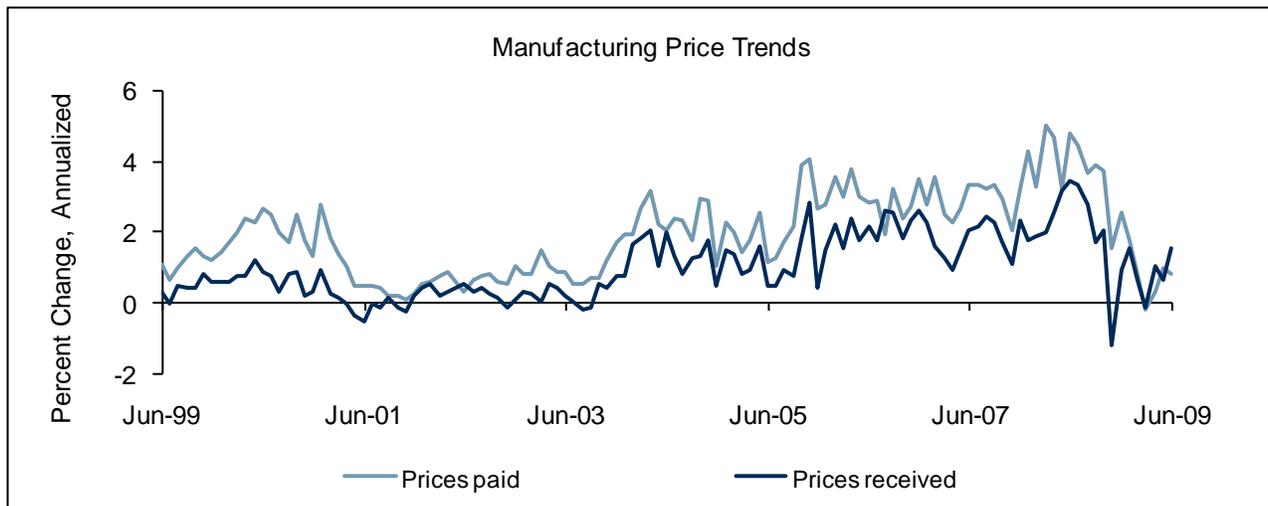
In June, the seasonally adjusted manufacturing index — our broadest measure of manufacturing activity — jumped to 6 from May's reading of 4. Among the index's components, shipments lost seven points to 2, new orders rose six points to finish at 16, and the jobs index advanced six points to end at -6.

Other indicators also suggested somewhat stronger activity. The orders backlogs index turned positive, gaining 11 points to 8, while the measure for delivery times picked up four points to 0. The capacity utilization index edged higher, adding two points to 7, while our gauges for inventories were mixed. The finished goods inventory index moved



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up five points to 40, but the raw materials inventory index trimmed three points to 18.

Employment

Labor market conditions continued to improve in June. The employment index registered a -6 versus last month's reading of -12, and the average workweek inched up three points to 8. Additionally, the wage index added four points to 9.

Expectations

In our June survey, our contacts remained confident about their business prospects during the next six months, though the readings slipped somewhat from May levels. The index of expected shipments dropped five points to 23, the new orders indicator fell four points to end at 23, and the orders backlogs measure eased two points to 11. Moreover, both the capacity utilization and vendor delivery times expectations indexes declined 10 points to end at 17 and 3, respectively. Readings on planned capital expenditures turned positive — but just barely — as the index picked up two points in June to end at 1.

District manufacturers' hiring plans varied in June. The expected manufacturing employment index was little changed at 3, while the average workweek index advanced three points to end at 9.

In contrast, the expected wage index posted a 10-point loss to 1.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 0.76 percent in June compared with May's reading of 0.97 percent. Finished goods prices rose at a 1.56 percent pace — up a bit from last month's reading of 0.65 percent. Looking ahead, respondents expected that the prices they pay will advance at a 2.70 percent pace — little changed from the previous month's expectation of 2.63 percent. Contacts looked for finished goods prices to increase at a 0.99 percent annual rate during the next six months compared to last month's expectation of 0.66 percent.

Contact

Judy Cox

Senior Economic Analyst
Regional Economics Department
Federal Reserve Bank of Richmond
Ph: 804-697-8152 · Fax: 804-697-8123
judy.cox@rich.frb.org
www.richmondfed.org



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Business Activity Indexes ¹						
	Current Conditions			Expectations ²		
	June	May	Apr	June	May	Apr
General business assessment						
Fifth District Manufacturing Index ³	6	4	-9	-	-	-
Company conditions						
Shipments	2	9	-3	23	28	31
Volume of new orders	16	10	-2	23	27	29
Backlog of orders	8	-3	-15	11	13	14
Capacity utilization	7	5	-13	17	27	29
Vendor lead-time	0	-4	-9	3	13	6
Number of employees	-6	-12	-26	3	2	1
Average workweek	8	5	-7	9	6	10
Wages	9	5	1	1	11	12
Capital Expenditures	--	--	--	1	-1	-15
Inventory levels						
Finished goods inventories	40	35	40	-	-	-
Raw materials inventories	18	21	27	-	-	-
Price trends⁴						
Prices paid	0.76	0.97	0.28	2.70	2.63	2.81
Prices received	1.56	0.65	1.01	0.99	0.66	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 90 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.