

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Expands at a Solid Pace in July; Expectations Upbeat*

### Overview

Manufacturing activity in the central Atlantic region expanded at a quicker pace in July, according to the Richmond Fed's latest survey. The index of overall activity was pushed higher by stronger readings for shipments and new orders. District contacts reported that new orders rose at the fastest rate since March 2004 and that the pace of hiring continued to exhibit more moderate weakness. Other indicators also suggested generally stronger activity. Backlogs inched lower, while vendor delivery times edged higher and capacity utilization increased notably. In addition, manufacturers reported considerably slower growth in inventories.

Looking forward, assessments of business prospects for the next six months were more optimistic in July. Contacts at more firms anticipated that their shipments, new orders, and capacity utilization would grow more quickly in the months ahead.

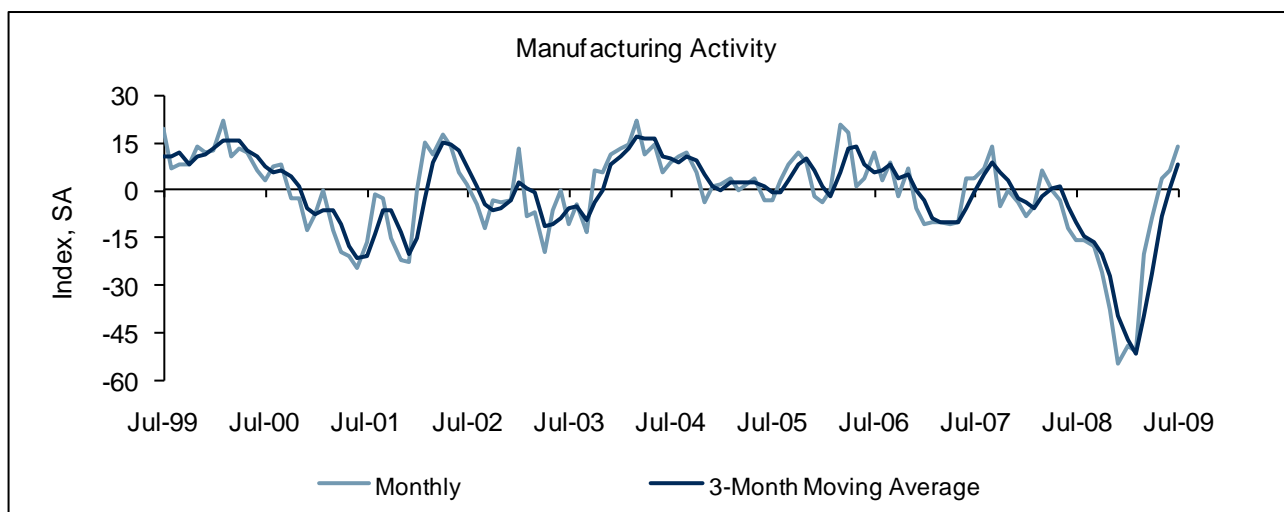
Survey assessments also revealed that growth in

both raw materials and finished goods prices declined in July. Over the next six months, respondents told us that they expected growth in raw materials and finished goods prices to rise more slowly from what they had anticipated in June.

### Current Activity

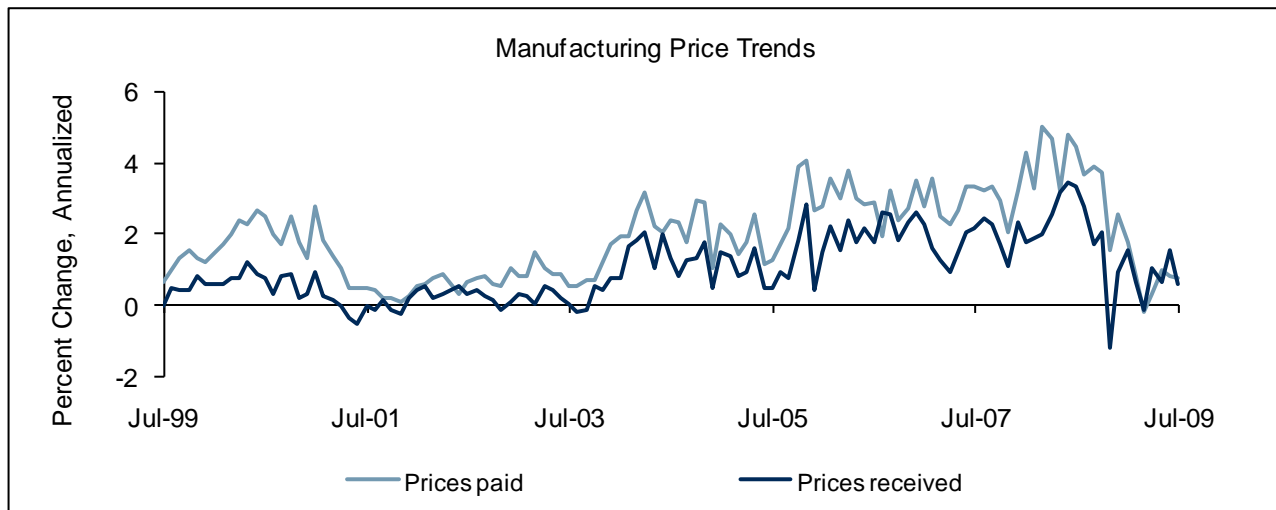
In July, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—jumped to 14 from June's reading of 6. Among the index's components, shipments leaped 14 points to 16, new orders rose eight points to 24, and the jobs index edged up one point to end at -5.

Other indicators also suggested mostly stronger activity. The orders backlogs index eased four points to 4, while the measure for delivery times edged up two points to 2. The capacity utilization index doubled, adding seven points to 14, while our gauges for inventories grew at a considerably slower pace. The finished goods inventory index retreated 14 points to 26, and the raw materials



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inventory index moved down 10 points to 8.

#### Employment

Labor market conditions were mixed in July. The employment index was virtually unchanged at -5, and the average workweek measure picked up six points to 14. On the other hand, the wage index eased one point to 8.

#### Expectations

In our July survey, our contacts were slightly more confident about their business prospects during the next six months. The index of expected shipments picked up four points to 27, the new orders indicator advanced six points to end at 29, and the orders backlogs measure held steady at 11. Moreover, the capacity utilization index edged up two points to 19 and the vendor delivery times expectations index was almost unchanged at 4. Additionally, the index for planned capital expenditures stayed on pace, matching its June reading of 1.

District manufacturers' hiring plans were slightly less optimistic in July. The expected manufacturing employment index edged down two points to 1, and the average workweek index dropped nine points to end at 0. In contrast, the expected wage index posted a four-point gain to 5.

#### Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 0.75 percent in July—a smidgen below last month's reading of 0.76 percent. Finished goods prices rose at a 0.58 percent pace—considerably lower than June's reading of 1.56 percent. Looking forward, respondents expected that the prices they pay will advance at a 1.96 percent pace—a pullback from the previous month's expectation of 2.70 percent. Contacts looked for finished goods prices to increase at a 0.51 percent annual rate during the next six months compared to last month's expectation of 0.99 percent.

#### Contact

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Business Activity Indexes <sup>1</sup>						
General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Jul-09	Jun-09	May-09	Jul-09	Jun-09	May-09
Fifth District Manufacturing Index <sup>3</sup>	14	6	4	--	--	--
Company Conditions						
Shipments	16	2	9	27	23	28
Volume of New Orders	24	16	10	29	23	27
Backlog of Orders	4	8	-3	11	11	13
Capacity Utilization	14	7	5	19	17	27
Vendor Lead-time	2	0	-4	4	3	13
Number of Employees	-5	-6	-12	1	3	2
Average Workweek	14	8	5	0	9	6
Wages	8	9	5	5	1	11
Capital Expenditures	--	--	--	1	1	-1
Inventory Levels						
Finished Goods Inventories	26	40	35	--	--	--
Raw Materials Inventories	8	18	21	--	--	--
Price Trends <sup>4</sup>						
Prices Paid	0.75	0.76	0.97	1.96	2.70	2.63
Prices Received	0.58	1.56	0.65	0.51	0.99	0.66

#### Technical 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 87 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.