

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Expanded for Fourth Straight Month; Optimism Wanes a Bit*

### Overview

In August, manufacturing activity in the central Atlantic region expanded for the fourth straight month, according to the Richmond Fed's latest survey. Looking at the main components of activity, shipments expanded further, while new orders grew at a slightly slower rate and employment steadied. Correspondingly, solid activity was evident in other broad indicators. Capacity utilization continued to strengthen notably, while backlogs and vendor delivery times matched July's pace. In addition, manufacturers reported considerably quicker growth in raw materials inventories, but noted slower growth in finished goods materials inventories.

Despite the recent increase in activity, manufacturers softened their outlook for the next six months. Contacts at more firms anticipated that their shipments, new orders, backlogs and capacity utilization would grow more slowly during the next six months than they expected in July. In contrast, contacts looked for capital expenditures to grow a bit more rapidly in the months ahead.

Survey measures of prices revealed that growth in both raw materials and finished goods increased in August. Over the next six months, respondents told us that they expected raw materials and finished goods prices to grow at slightly slower rates than they had anticipated last month.

### Current Activity

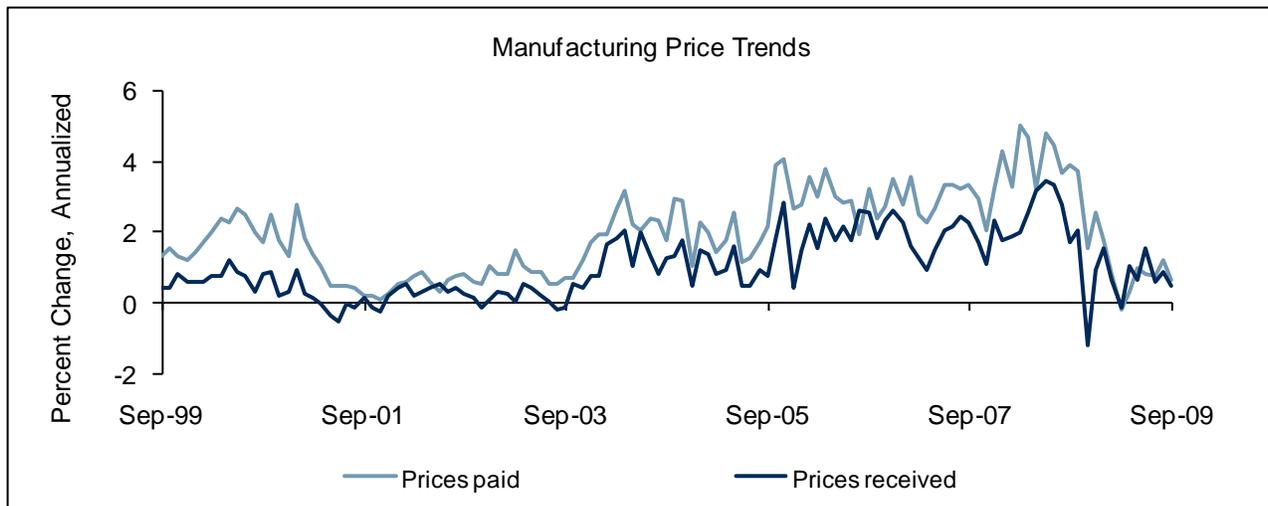
In August, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—was unchanged from July's reading of 14. Among the index's components, shipments rose five points to 21, new orders fell six points to finish at 18, and the jobs index picked up five points to end at 0.

Other indicators also suggested solid growth. The capacity utilization measure moved up eight points to 22, while the orders backlogs and delivery times indexes matched last months' reading of 4 and 2, respectively. Our gauges for inventories were mixed in August. The finished goods inventory index trimmed four points to 22, while the raw materials inventory index jumped ten points to 18.



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#### Employment

Labor market conditions firmed at District plants in August. The employment index recouped five points to end at 5, and the average workweek measure edged up two points to 16. On the other hand, the wages index eased two points to 6.

#### Expectations

In our latest survey, our contacts were slightly less confident about their business prospects during the next six months. The index of expected shipments declined seven points to 20, the new orders indicator tumbled thirteen points to end at 16, and the orders backlogs measure dropped eight points to 3. Moreover, the capacity utilization index shed nine points to 10 and the vendor delivery times expectations index edged up three points to 7. Additionally, the index for planned capital expenditures gained two points to 3.

District manufacturers' hiring plans in coming months were slightly less optimistic as well. The expected manufacturing employment index edged down four points to -3, and the average workweek index dropped five points to finish at -5. Moreover, the expected wages index eased one point to 4.

#### Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.15 percent in August—a slight uptick from last month's reading of 0.75 percent. Finished goods prices also posted a slight increase from August,

rising at a 0.86 percent pace compared to July's reading of 0.58 percent. Looking forward, respondents expected that the prices they pay will advance at a 0.93 percent pace—a pullback from the previous month's expectation of 1.96 percent. Additionally, contacts looked for finished goods prices to increase at a 0.06 percent annual rate during the next six months—down considerably from last month's expectation of 0.51 percent.

#### Contact

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Business Activity Indexes <sup>1</sup>						
General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Aug-09	Jul-09	Jun-09	Aug-09	Jul-09	Jun-09
Fifth District Manufacturing Index <sup>3</sup>	14	14	6	--	--	--
Company Conditions						
Shipments	21	16	2	20	27	23
Volume of New Orders	18	24	16	16	29	23
Backlog of Orders	4	4	8	3	11	11
Capacity Utilization	22	14	7	10	19	17
Vendor Lead-time	2	2	0	7	4	3
Number of Employees	0	-5	-6	-3	1	3
Average Workweek	16	14	8	-5	0	9
Wages	6	8	9	4	5	1
Capital Expenditures	--	--	--	3	1	1
Inventory Levels						
Finished Goods Inventories	22	26	40	--	--	--
Raw Materials Inventories	18	8	18	--	--	--
Price Trends <sup>4</sup>						
Prices Paid	1.15	0.75	0.76	0.93	1.96	2.70
Prices Received	0.86	0.58	1.56	0.06	0.51	0.99

### 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 73 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.