

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Rises—Signals Solid Third Quarter; Shipments, New Orders and Employment Grow; Prices Growth Slows*

### Overview

Manufacturing activity in the central Atlantic region expanded for the fifth straight month in September, according to the Richmond Fed's latest survey. All broad indicators—shipments, new orders and employment—landed in positive territory, with manufacturers noting their first increase in worker numbers since December 2007. Other indicators were mixed, however. Capacity utilization grew more slowly, while backlogs and vendor delivery times shrank. In addition, manufacturers reported slower growth in inventories.

Looking ahead, assessments for business prospects for the next six months were also generally more positive. Contacts at more firms anticipated that their new orders, backlogs, capacity utilization and capital expenditures would grow more quickly in the months ahead than they expected in August.

Survey measures of prices revealed that growth in

both raw materials and finished goods declined in September. Respondents told us that over the next six months they expected raw materials and finished goods prices to grow at quicker rates than they had anticipated last month.

### Current Activity

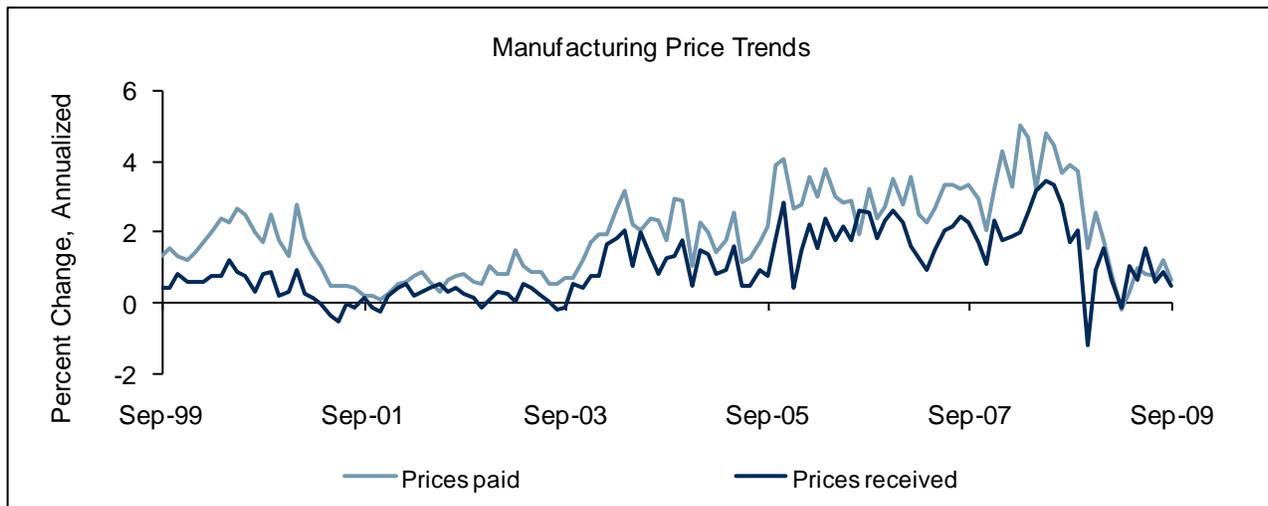
In September, the seasonally adjusted manufacturing index—our broadest measure of manufacturing activity—was unchanged from August's reading of 14. Among the index's components, shipments edged up one point to 22, new orders lost five points to finish at 13, and the jobs index picked up five points to end at 5.

Other indicators varied. The capacity utilization measure moved down six points to 16, and the orders backlogs and delivery times indexes turned negative, losing nine and five points, respectively, to end at -5 and -3. Our gauges for inventories grew more slowly in September. The finished goods inventory index trimmed four points to 18,



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while the raw materials inventory index dropped six points to 12.

#### Employment

Labor market conditions strengthened at District plants in September. The employment index gained five points to end at 5, and the average workweek measure was virtually unchanged at 15. Moreover, the wages index advanced three points to 9.

#### Expectations

In our latest survey, our contacts were slightly more optimistic about their business prospects during the next six months. The index of expected shipments was unchanged at 20, the new orders indicator rose three points to 19, and the orders backlogs measure moved up six points to 9. Furthermore, the capacity utilization index edged up two points to 12, while the vendor delivery times expectations index declined six points to 1. Additionally, the index for planned capital expenditures gained six points to 9.

District manufacturers' hiring plans in coming months were mixed, however. The expected manufacturing employment index moved into positive territory, picking up six points to 3, while the average workweek index fell further, losing seven points to finish at -12. In contrast, the expected wages index added seven points to 11.

#### Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 0.61 percent in September—a pullback from last month's reading of 1.15 percent. Finished goods prices rose at a 0.48 percent pace—somewhat below August's reading of 0.86 percent. Looking ahead, respondents expected that the prices they pay will advance at a 1.88 percent pace—a sharp pickup from the previous month's expectation of 0.93 percent. Additionally, contacts looked for finished goods prices to increase at a 0.35 percent annual rate during the next six months—up somewhat from last month's flat expectation of 0.06 percent.

#### Contact

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Business Activity Indexes <sup>1</sup>						
General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Sep-09	Aug-09	Jul-09	Sep-09	Aug-09	Jul-09
Fifth District Manufacturing Index <sup>3</sup>	14	14	14	--	--	--
Company Conditions						
Shipments	22	21	16	20	20	27
Volume of New Orders	13	18	24	19	16	29
Backlog of Orders	-5	4	4	9	3	11
Capacity Utilization	16	22	14	12	10	19
Vendor Lead-time	-3	2	2	1	7	4
Number of Employees	5	0	-5	3	-3	1
Average Workweek	15	16	14	-12	-5	0
Wages	9	6	8	11	4	5
Capital Expenditures	--	--	--	9	3	1
Inventory Levels						
Finished Goods Inventories	18	22	26	--	--	--
Raw Materials Inventories	12	18	8	--	--	--
Price Trends <sup>4</sup>						
Prices Paid	0.61	1.15	0.75	1.88	0.93	1.96
Prices Received	0.48	0.86	0.58	0.35	0.06	0.51

### 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 82 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.