

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Growth Moderates in October; But manufacturers remain optimistic

Overview

Manufacturing activity in the central Atlantic region expanded for the sixth straight month but at a more moderate pace in October, according to the Richmond Fed's latest survey. All broad indicators—shipments, new orders and employment—continued to grow but at a rate below September's pace. Other indicators were mixed, however. Capacity utilization continued to grow more slowly, while backlogs fell further into negative territory. Vendor delivery times were virtually unchanged, while manufacturers reported slower growth in finished goods inventories.

In spite of the recent moderation in activity, assessments for business prospects for the next six months were generally more positive since our last report. Contacts at more firms anticipated that their shipments, new orders, backlogs, capacity utilization and capital expenditures would grow more quickly in the months ahead than they expected in September. In contrast, contacts

looked for employment to reverse its positive trend that was seen last month.

Survey measures of prices revealed that growth in both raw materials and finished goods continued to decline in October. Respondents indicated 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

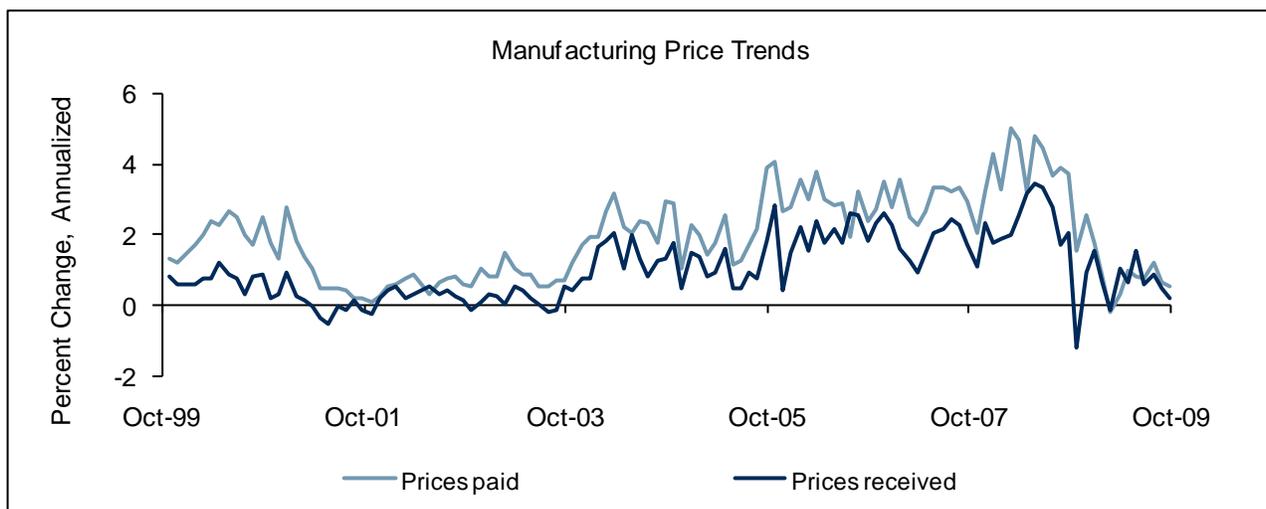
In October, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—moved down to 7 from September's reading of 14. Among the index's components, shipments dropped 11 points to 11, new orders lost six points to finish at 7, and the jobs index eased three points to end at 2.

Other indicators varied. The capacity utilization measure declined 12 points to 4, and the orders backlogs fell six points to -11, while the delivery times was virtually unchanged at -2. Our gauges



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for inventories were mixed in October. The finished goods inventory index trimmed four points to 14, while the raw materials inventory index held steady at 12.

Employment

Labor market conditions at District plants softened in October. The employment index slipped three points to end the month at 2, and the average workweek measure plummeted 16 points to -1. In addition, the wages index dropped 10 points to -1.

Expectations

In our latest survey, our contacts were more optimistic about their business prospects during the next six months. The index of expected shipments moved up four points to 24, the new orders indicator rose 11 points to 30, and the orders backlogs measure advanced 12 points to 21. Furthermore, the capacity utilization index picked up 11 points to 23, while the vendor delivery times expectations index edged up one point to 2. Additionally, the index for planned capital expenditures jumped 13 points to 22.

District manufacturers' hiring plans in coming months were mixed, however. The expected manufacturing employment index moved back into negative territory, losing five points to -2, while the average workweek index turned positive, leaping

27 points to finish at 15. In addition, the expected wages index gained 12 points to 23.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 0.53 percent in October compared with September's reading of 0.61 percent. Finished goods prices rose at a 0.18 percent pace versus last month's reading of 0.48. Looking forward, respondents expected that the prices they pay will advance at a 3.40 percent pace—a sharp pickup from the previous month's expectation of 1.88 percent. Additionally, contacts looked for finished goods prices to increase at a 1.73 percent annual rate during the next six months—up considerably from last month's expectation of 0.35 percent.

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Business Activity Indexes ¹						
General Business Assessment	Current Conditions			Expectations ²		
	Oct-09	Sep-09	Aug-09	Oct-09	Sep-09	Aug-09
Fifth District Manufacturing Index ³	7	14	14	--	--	--
Company Conditions						
Shipments	11	22	21	24	20	20
Volume of New Orders	7	13	18	30	19	16
Backlog of Orders	-11	-5	4	21	9	3
Capacity Utilization	4	16	22	23	12	10
Vendor Lead-time	-2	-3	2	2	1	7
Number of Employees	2	5	0	-2	3	-3
Average Workweek	-1	15	16	15	-12	-5
Wages	-1	9	6	23	11	4
Capital Expenditures	--	--	--	22	9	3
Inventory Levels						
Finished Goods Inventories	14	18	22	--	--	--
Raw Materials Inventories	12	12	18	--	--	--
Price Trends ⁴						
Prices Paid	0.53	0.61	1.15	3.40	1.88	0.93
Prices Received	0.18	0.48	0.86	1.73	0.35	0.06

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 83 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.