

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Flat on Balance: Shipments and New Orders Up Modestly; Employment Declines; Expectations Change Little

Overview

Manufacturing activity in the central Atlantic region expanded for the seventh straight month but was virtually flat on balance this month, according to the Richmond Fed's latest survey. Looking at the main components of activity, growth in shipments and new orders tapered off, while employment returned to negative territory after being positive for the last two months. Other indicators were generally in line with a month ago. Capacity utilization continued to grow more slowly, while backlogs edged slightly lower than a month ago. Vendor delivery times were virtually unchanged, while manufacturers reported slower growth in inventories.

Looking forward, assessments of business prospects for the next six months were generally on par with last month's readings. Firms looked for steady growth in shipments, new orders, capacity utilization and capital expenditures in the months ahead, while they expected employment to stabilize and reverse its negative reading that was seen last month.

Survey measures of prices revealed that growth in raw materials and finished goods increased at a quicker pace in November. Respondents indicated that over the next six months they expected slightly slower growth in both raw materials and finished goods prices from what they had anticipated last month.

Current Activity

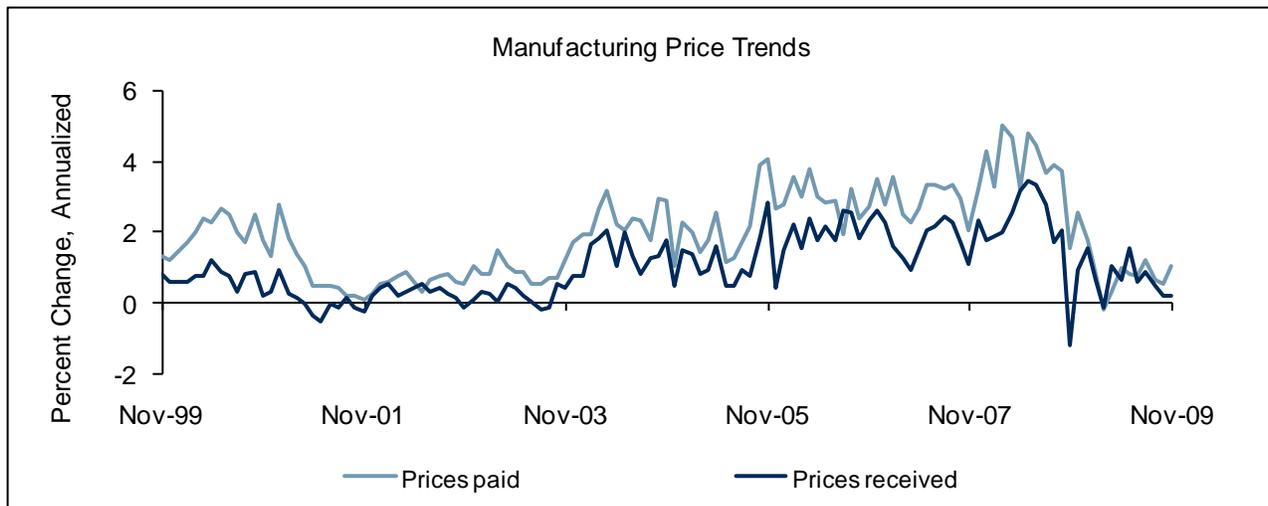
In November, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—moved down to 1 from October's reading of 7. Among the index's components, shipments dropped five points to 6, new orders lost four points to finish at 3, and the jobs index fell 11 points to end at -9.

Other indicators were mostly in line with recent readings. The capacity utilization measure edged down two points to 2 and the orders backlogs index eased one point to -12, while the delivery times index was virtually unchanged at -1. Our gauges for inventories were somewhat lower in November. The finished goods and raw materials



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inventory indexes each trimmed two points to finish at 12 and 10, respectively.

Employment

Labor market conditions at District plants weakened in November. The employment index dropped eleven points to end the month at -9, and the average workweek measure inched down five points to -6. In addition, the wages index declined four points to -5.

Expectations

In our latest survey, contacts remained generally confident about their business prospects during the next six months. The index of expected shipments held steady at 24, the new orders indicator eased two points to 28, and the orders backlogs measure dropped nine points to 12. Furthermore, the capacity utilization index was unchanged at 23, while the vendor delivery times expectations index edged up one point to 3. Additionally, the index for planned capital expenditures stayed at 22.

District manufacturers' hiring plans in coming months were mixed, however. The expected manufacturing employment index picked up two points to 0, while the average workweek index was virtually unchanged at 16. In addition, the expected wages index posted a one-point gain to 24.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.02 percent in November compared with October's reading of 0.53 percent. Finished goods prices rose at a 0.22 percent pace versus last month's reading of 0.18. Looking forward, respondents expected that the prices they pay will advance at a 2.70 percent pace versus the previous month's expectation of 3.40 percent. Additionally, contacts looked for finished goods prices to increase at a 1.35 percent annual rate during the next six months compared to last month's expectation of 1.73 percent.

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Business Activity Indexes ¹						
General Business Assessment	Current Conditions			Expectations ²		
	Nov-09	Oct-09	Sep-09	Nov-09	Oct-09	Sep-09
Fifth District Manufacturing Index ³	1	7	14	--	--	--
Company Conditions						
Shipments	6	11	22	24	24	20
Volume of New Orders	3	7	13	28	30	19
Backlog of Orders	-12	-11	-5	12	21	9
Capacity Utilization	2	4	16	23	23	12
Vendor Lead-time	-1	-2	-3	3	2	1
Number of Employees	-9	2	5	0	-2	3
Average Workweek	-6	-1	15	16	15	-12
Wages	-5	-1	9	24	23	11
Capital Expenditures	--	--	--	22	22	9
Inventory Levels						
Finished Goods Inventories	12	14	18	--	--	--
Raw Materials Inventories	10	12	12	--	--	--
Price Trends ⁴						
Prices Paid	1.02	0.53	0.61	2.70	3.40	1.88
Prices Received	0.22	0.18	0.48	1.35	1.73	0.35

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 84 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.