

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Pulled Back in December; Shipments, New Orders and Employment Decrease, But Expectations Upbeat

Overview

Manufacturing activity in the central Atlantic region pulled back in December from positive territory after expanding during the previous seven months, according to the Richmond Fed's latest survey. All broad indicators of activity—shipments, new orders and employment—landed in negative territory. Most other indicators also suggested additional softness. Capacity utilization turned negative following seven months of improvement, while backlogs held steady. Vendor delivery times were virtually unchanged, while manufacturers reported slightly quicker growth in inventories.

Despite the decline in activity, manufacturers in December were more optimistic about their future prospects. Firms anticipated that their shipments, new orders, backlogs, and capacity utilization would grow more rapidly in the months ahead.

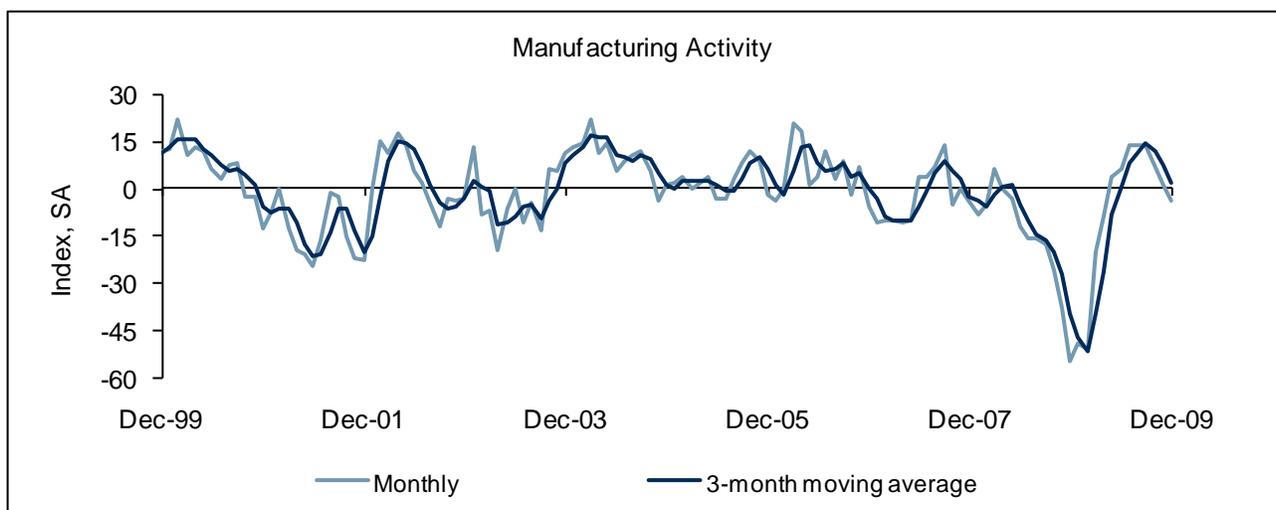
Survey measures of prices were mixed in December. Raw materials grew at a slower pace at District factories, while finished goods grew at a slightly faster pace. Respondents indicated that

during the next six months they expected slower growth in both raw materials and finished goods prices from what they had anticipated last month.

Current Activity

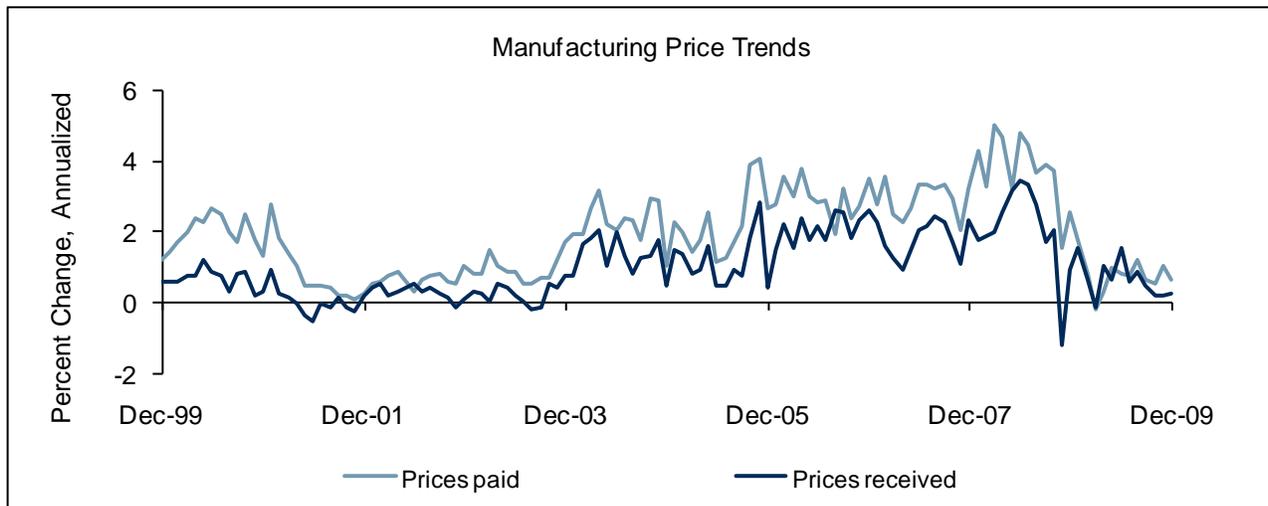
In December, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—moved down to -4 from November's reading of 1. Among the index's components, shipments dropped 12 points to -6, and new orders lost seven points to finish at -4. However, the jobs index gained seven points to end at -2.

Other indicators also suggested weaker activity. The capacity utilization measure turned negative, losing five points to -3, while the orders backlogs remained unchanged at -12, and the delivery times was virtually unchanged at -2. Our gauges for inventories were slightly higher in December. The finished goods inventory index added two points to 14 and the raw materials inventory index advanced one point to finish at 11.



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Employment

Hiring activity at District plants was mixed in December. The employment index gained seven points to end the month at -2, while the average workweek measure turned positive, picking up eight points to 2. In addition, the wages index increased three points to -2.

Expectations

In our latest survey, contacts were more positive about their business prospects during the next six months. The index of expected shipments moved up five points to 29, the new orders indicator picked up seven points to 35, and the orders backlogs measure rose nine points to 21.

Furthermore, the capacity utilization index edged up two points to 25, and the vendor delivery times expectations index increased eight points to 11. Additionally, the index for planned capital expenditures was virtually unchanged at 23.

Manufacturers' intentions to expand employment were also generally more positive in December. The expected manufacturing employment index picked up two points to 2, while the average workweek index eased two points to 14. Moreover, the expected wages index posted a five-point gain to 29.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 0.62 percent in December compared with November's reading of 1.02 percent. Finished goods prices rose at a 0.28 percent pace versus last month's reading of 0.22.

Looking ahead, respondents expected that the prices they pay will advance at a 2.04 percent pace versus the previous month's expectation of 2.70 percent. Additionally, contacts looked for finished goods prices to increase at a 0.69 percent annual rate during the next six months, compared to last month's expectation of 1.35 percent.

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Business Activity Indexes ¹						
General Business Assessment	Current Conditions			Expectations ²		
	Dec-09	Nov-09	Oct-09	Dec-09	Nov-09	Oct-09
Fifth District Manufacturing Index ³	-4	1	7	--	--	--
Company Conditions						
Shipments	-6	6	11	29	24	24
Volume of New Orders	-4	3	7	35	28	30
Backlog of Orders	-12	-12	-11	21	12	21
Capacity Utilization	-3	2	4	25	23	23
Vendor Lead-time	-2	-1	-2	11	3	2
Number of Employees	-2	-9	2	2	0	-2
Average Workweek	2	-6	-1	14	16	15
Wages	-2	-5	-1	29	24	23
Capital Expenditures	--	--	--	23	22	22
Inventory Levels						
Finished Goods Inventories	14	12	14	--	--	--
Raw Materials Inventories	11	10	12	--	--	--
Price Trends ⁴						
Prices Paid	0.62	1.02	0.53	2.04	2.70	3.40
Prices Received	0.28	0.22	0.18	0.69	1.35	1.73

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.