

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Production Activity Nearly Flat in January: Expectations Remain Optimistic

Overview

Manufacturing activity in the central Atlantic region contracted at a less pronounced rate in January, according to the Richmond Fed's latest survey. The index of overall activity edged up a bit as growth in new orders turned slightly positive. Growth in shipments contracted at a somewhat slower pace, while employment contracted at a slightly quicker rate. Other indicators were also mixed. The pace of decreasing backlogs and capacity utilization were on par with December, while vendor delivery times increased. In addition, manufacturers reported slightly slower growth in inventories.

Looking forward, assessments of business prospects for the next six months were generally in line with last month. Firms anticipated that their shipments, new orders, backlogs, and capacity utilization would grow more rapidly in the months ahead.

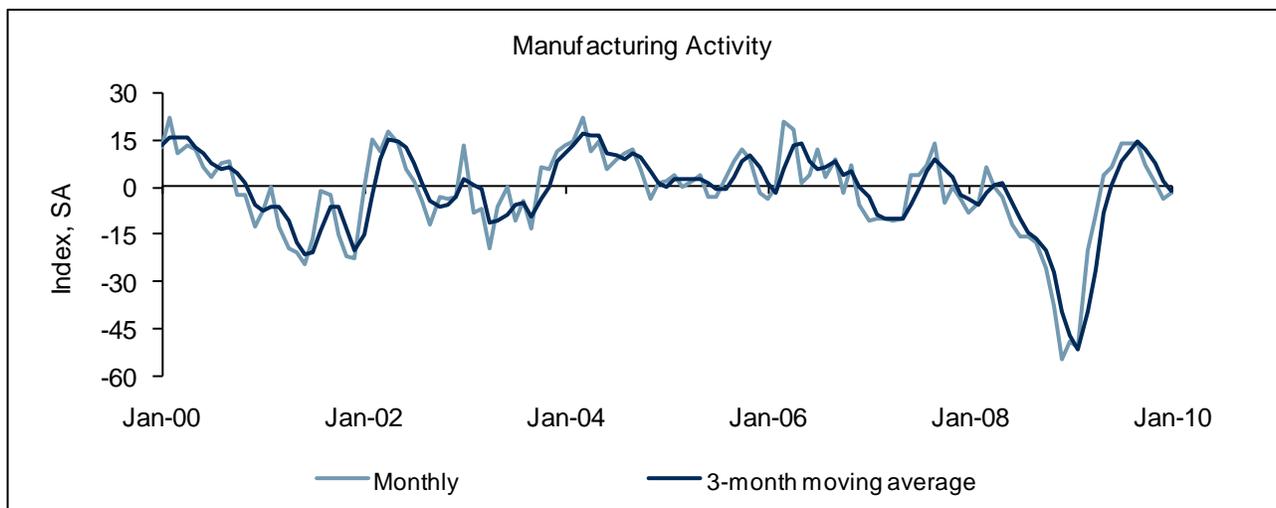
Survey measures of prices revealed that growth in raw materials and finished goods increased at a faster pace in January than a month ago.

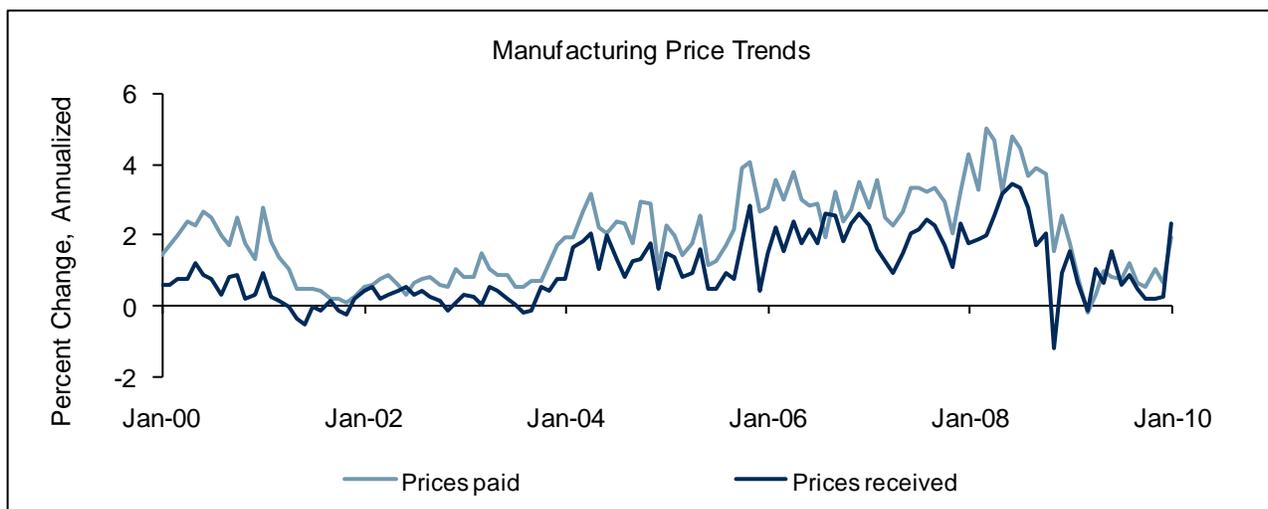
Moreover, respondents indicated that during the next six months they expected quicker growth in both raw materials and finished goods prices from what they had anticipated last month.

Current Activity

In January, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—improved slightly, moving up to -2 from December's reading of -4. Among the index's components, shipments picked up four points to -2, and new orders turned positive, gaining five points to finish at 1. However, the jobs index eased three points to end at -5.

Other indicators also varied. The capacity utilization and backlog measures were on par with last month's readings at -3 and -13, respectively, and the delivery times index advanced seven points to end at 5. Our gauges for inventories were slightly lower in January. The finished goods inventory index shed four points to slip back to 10 and the raw materials inventory index trimmed two points to finish at 9.





Employment

Hiring activity at District plants weakened somewhat in January. The employment index declined three points to end the month at -5, and the average workweek measure lost eight points to -6. In contrast, the wages index increased eight points to 6.

Expectations

In our latest survey, contacts remained positive about their business prospects during the next six months. The index of expected shipments held steady at 29, and the new orders, orders backlogs and capacity utilization indicators were virtually unchanged at 34, 20, and 26, respectively. The vendor delivery times expectations index declined five points to 6 and the index for planned capital expenditures fell three points to 20.

Manufacturers' intentions to expand employment changed little in January. The expected manufacturing employment index advanced one point to 3, while the average workweek index was unchanged at 14. Moreover, the expected wages index posted a five-point gain to 34.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.89 percent—a sharp pickup from December's reading of 0.62 percent. Finished goods prices

also posted a notable increase from December, rising at a 2.29 percent pace versus last month's reading of 0.28 percent.

Looking ahead, respondents expected that the prices they pay will advance at a 3.09 percent pace, up markedly from the previous month's expectation of 2.04 percent. Additionally, contacts looked for finished goods prices to increase at a 1.89 percent annual rate during the next six months, also considerably higher than last month's expectation of 0.69 percent.

Contact

Judy Cox

Senior Economic Analyst
Research Dept./Regional Economics
Federal Reserve Bank of Richmond
Richmond Office

Ph: 804.697.8152 • Fax: 804.697.8123
judy.cox@rich.frb.org
www.richmondfed.org

Business Activity Indexes¹						
General Business Assessment	Current Conditions			Expectations²		
	Jan-10	Dec-09	Nov-09	Jan-10	Dec-09	Nov-09
Fifth District Manufacturing Index ³	-2	-4	1	--	--	--
Company Conditions						
Shipments	-2	-6	6	29	29	24
Volume of New Orders	1	-4	3	34	35	28
Backlog of Orders	-13	-12	-12	20	21	12
Capacity Utilization	-3	-3	2	26	25	23
Vendor Lead-time	5	-2	-1	6	11	3
Number of Employees	-5	-2	-9	3	2	0
Average Workweek	-6	2	-6	14	14	16
Wages	6	-2	-5	34	29	24
Capital Expenditures	--	--	--	20	23	22
Inventory Levels						
Finished Goods Inventories	10	14	12	--	--	--
Raw Materials Inventories	9	11	10	--	--	--
Price Trends⁴						
Prices Paid	1.89	0.62	1.02	3.09	2.04	2.70
Prices Received	2.29	0.28	0.22	1.89	0.69	1.35

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 80 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.