

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Edged Up in February: Expectations Remained Upbeat

Overview

Manufacturing activity in the central Atlantic region advanced slightly in February, following several months of modest declines, according to the Richmond Fed's latest survey. The index of overall activity inched up as shipments steadied and solid gains in new orders offset a slight decrease in employment. Other indicators were mixed. Backlogs of orders stabilized for the first time in six months and capacity utilization was unchanged from a month ago. Vendor delivery times grew at a slightly slower pace, while manufacturers reported slightly quicker growth in finished goods inventories.

Looking ahead, assessments of business prospects for the next six months were generally more positive than our last report. Firms anticipated that their shipments, new orders, average workweek, wages and capital expenditures would grow more rapidly in the months ahead.

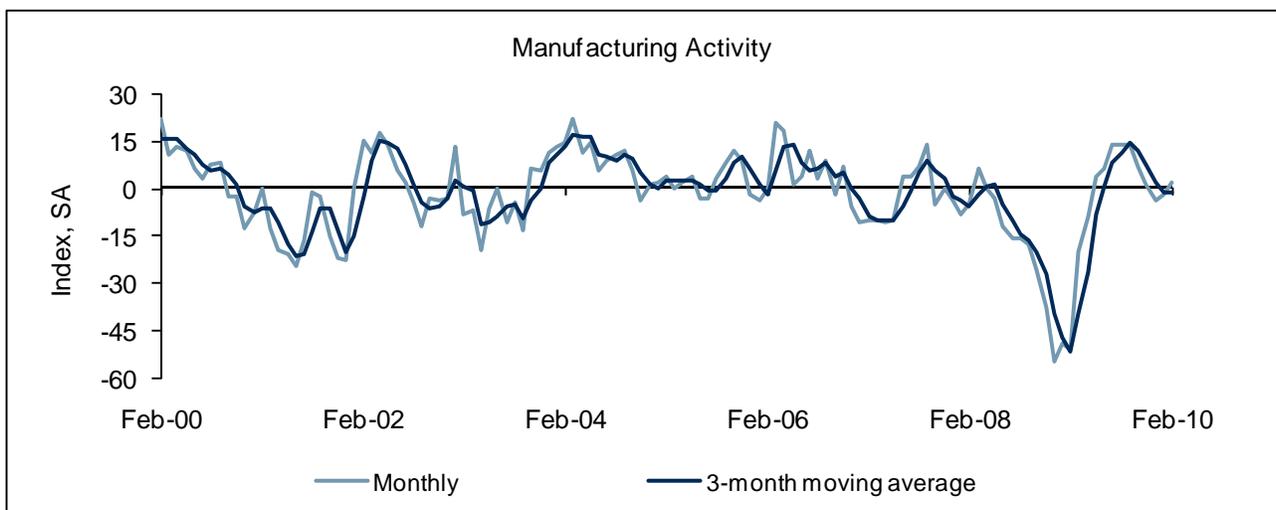
Survey measures of prices revealed that growth in raw materials and finished goods increased at a

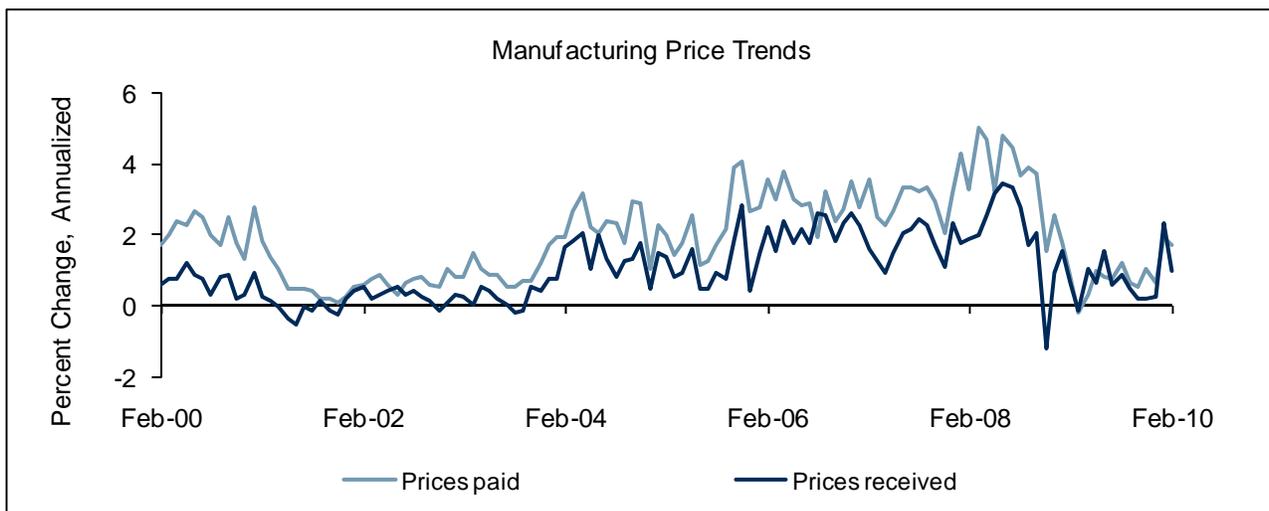
slower pace in February than a month ago. Respondents indicated that during the next six months they expected slower growth in both raw materials and finished goods prices from what they had anticipated last month.

Current Activity

In February, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—turned positive, moving up to 2 from January's reading of -2. Among the index's components, shipments picked up two points to 0, and new orders gained eight points to finish at 9. However, the jobs index slipped two points to end at -7.

Other indicators also varied. The backlog of orders measure jumped 13 points to 0, while the index for capacity utilization held steady at -3. The delivery times index dropped three points to end at 2. Our gauges for inventories were mixed in February. The finished goods inventory index picked up three points to 13 and the raw materials inventory index slipped back four points to finish at 5.





Employment

Hiring activity at District plants weakened further in February. The employment index trimmed two points to end the month at -7, and the average workweek measure edged up two points to -4. In addition, wage increases slowed, with the index decreasing three points to 3.

Expectations

In our latest survey, contacts were generally more positive about their business prospects during the next six months. Fifth The index of expected ments advanced eight points to 37, and the new orders index moved up five points to 39. The index for planned capital expenditures edged up two points to 22, while the vendor delivery times expectations index held steady at 6. The backlogs and capacity utilization indicators grew more slowly, losing three and four points, respectively, to finish at 17 and 22.

Manufacturers' intentions to expand employment were mixed in February. The expected manufacturing employment index fell four points to -1 from a month ago. The average workweek index, however, rose six points to 20 with manufacturers preferring to increase hours while remaining cautious about hiring. Moreover, the expected wages index posted a three-point gain to 37.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.68 percent compared with January's reading of 1.89 percent. Finished goods prices rose at a 0.97 percent pace—a notable drop from January's reading of 2.29.

Looking forward, respondents expected that the prices they pay will advance at a 2.21 percent pace, considerably lower from the previous month's expectation of 3.09 percent. Additionally, contacts looked for finished goods prices to increase at a 1.14 percent annual rate during the next six months versus last month's expectation of 1.89 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		
	Feb-10	Jan-10	Dec-09	Feb-10	Jan-10	Dec-09
Fifth District Manufacturing Index ³	2	-2	-4	--	--	--
Company Conditions						
Shipments	0	-2	-6	37	29	29
Volume of New Orders	9	1	-4	39	34	35
Backlog of Orders	0	-13	-12	17	20	21
Capacity Utilization	-3	-3	-3	22	26	25
Vendor Lead-time	2	5	-2	6	6	11
Number of Employees	-7	-5	-2	-1	3	2
Average Workweek	-4	-6	2	20	14	14
Wages	3	6	-2	37	34	29
Capital Expenditures	--	--	--	22	20	23
Inventory Levels						
Finished Goods Inventories	13	10	14	--	--	--
Raw Materials Inventories	5	9	11	--	--	--
Price Trends⁴						
Prices Paid	1.68	1.89	0.62	2.21	3.09	2.04
Prices Received	0.97	2.29	0.28	1.14	1.89	0.69

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.