

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Continues to Expand in May: Expectations Remain Optimistic*

### Overview

Manufacturing activity in the central Atlantic region expanded for the fourth straight month, according to the Richmond Fed's latest survey. Looking at the main components of activity, shipments edged slightly higher, while new orders inched lower and employment grew more slowly. Other indicators were also mixed but suggested continued solid activity. Backlogs continued their upward trend and capacity utilization matched its all time high reading seen in April. Vendor lead-time continued to grow at a solid pace; suggesting activity remained strong in May. Inventories grew at a somewhat slower pace.

Looking forward, assessments of business prospects for the next six months were generally on par with last month's readings. Firms looked for shipments, new orders, and capacity utilization to grow more rapidly in the months ahead, while they expected capital expenditures to grow more moderately.

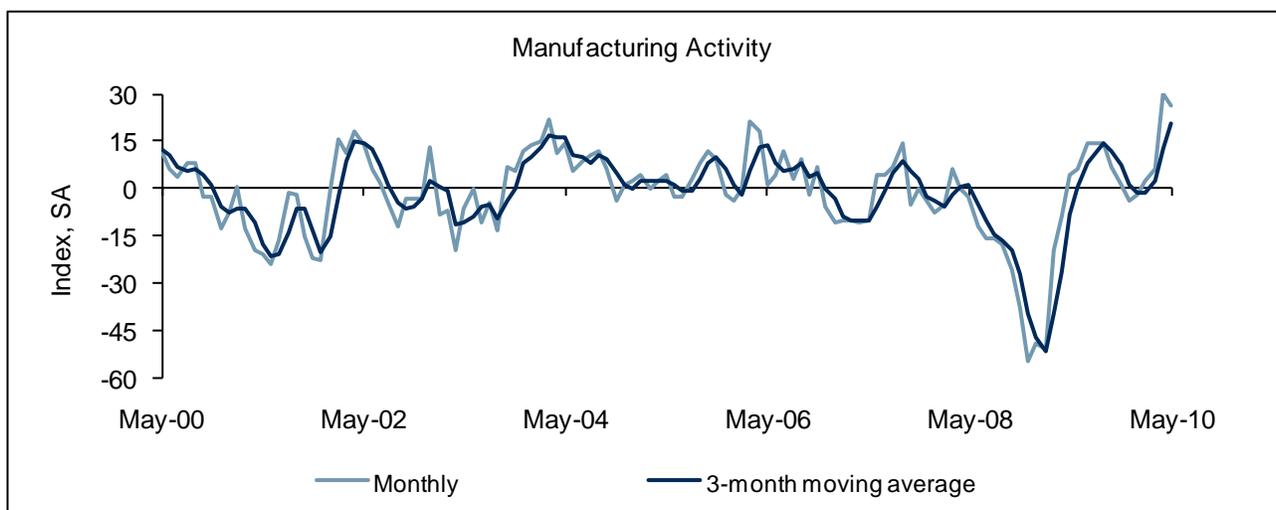
Survey measures of prices revealed that growth in raw materials increased at a slightly quicker pace

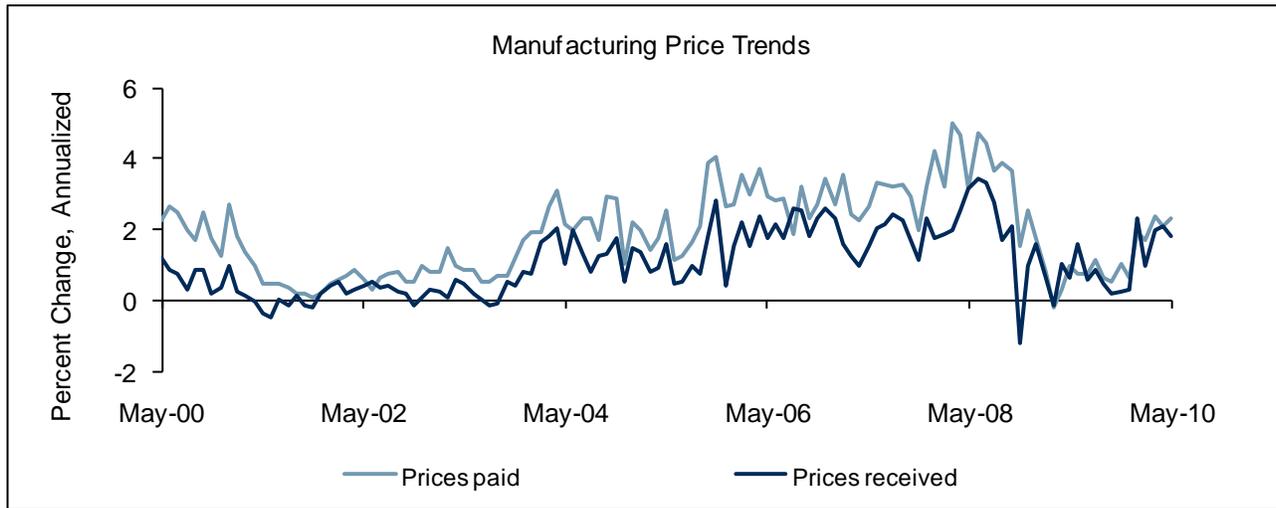
in May than a month ago, while finished goods prices grew at a somewhat slower pace. Respondents indicated that during the next six months they expected slower growth in both raw materials and finished goods prices from what they had anticipated last month.

### Current Activity

In May, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—declined four points to 26 from April's reading of 30. Among the index's components, shipments edged up two points to 32, new orders inched down five points to finish at 36, and the jobs index dropped nine points to end at 4.

Other indicators also varied. The backlog of orders measure picked up 11 points to 16, and the index for capacity utilization held steady at 27. The delivery times index eased three points to end at 14. Our gauges for inventories were slightly lower in May. The finished goods inventory index fell four points to 9, and the raw materials inventory index slipped three points to finish at 6.





**Employment**

District manufacturers' hiring plans for coming months were somewhat less optimistic in May. The manufacturing employment index registered a 4 versus April's reading of 13, and the average workweek measure subtracted three points to 13. In contrast, wage growth added 14 points to 20.

**Expectations**

In our latest survey, contacts remained upbeat about their business prospects during the next six months. The index of expected shipments advanced nine points to 55, and the new orders index rose six points to 50. In addition, the capacity utilization index moved up seven points to 45, while the backlogs indicator dropped six points to 19. Moreover, the vendor delivery times expectations index posted a five-point loss to 12, and the index for planned capital expenditures edged down three points to 20.

District manufacturers' plans to increase hiring also remained positive in May. The expected manufacturing employment index added two points to 19 from a month ago, while the average workweek indicator was virtually unchanged at 21. In contrast, the expected wages index posted a nine-point loss to 34.

**Prices**

District manufacturers reported that raw materials prices increased at an average annual rate of 2.33 percent compared with April's reading of 2.11 percent. Finished goods prices rose at a 1.83 percent pace—slightly below April's reading of 2.08.

Looking ahead, respondents expected that the prices they pay will advance at a 2.69 percent pace, a tad below the previous month's expectation of 2.79 percent. Additionally, contacts looked for finished goods prices to increase at a 1.29 percent annual rate, also slightly below last month's expectation of 1.39 percent.

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<b>Business Activity Indexes<sup>1</sup></b>						
<b>General Business Assessment</b>	<b>Current Conditions</b>			<b>Expectations<sup>2</sup></b>		
	<b>May-10</b>	<b>Apr-10</b>	<b>Mar-10</b>	<b>May-10</b>	<b>Apr-10</b>	<b>Mar-10</b>
Fifth District Manufacturing Index <sup>3</sup>	26	30	6	--	--	--
<b>Company Conditions</b>						
Shipments	32	30	5	55	46	40
Volume of New Orders	36	41	10	50	44	37
Backlog of Orders	16	5	-7	19	25	17
Capacity Utilization	27	27	3	45	38	34
Vendor Lead-time	14	17	8	12	17	13
Number of Employees	4	13	0	19	17	4
Average Workweek	13	16	0	21	22	16
Wages	20	6	-3	34	43	20
Capital Expenditures	--	--	--	20	23	14
<b>Inventory Levels</b>						
Finished Goods Inventories	9	13	6	--	--	--
Raw Materials Inventories	6	9	7	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	2.33	2.11	2.39	2.69	2.79	1.32
Prices Received	1.83	2.08	2.00	1.29	1.39	0.20

**Technical Notes:**

- 1 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.
- 2 Expectations refer to the time period six months out from the survey period.
- 3 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.
- 4 Price changes are expressed as a percent change, annualized.