

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Advanced at a Steady Pace in June: Optimism Wanes a Bit*

### Overview

Manufacturing activity in the central Atlantic region expanded for the fifth consecutive month, according to the Richmond Fed's latest survey. Looking at the main components of activity, shipments were virtually unchanged, while employment grew at a modest pace, and new orders grew more slowly. Other indicators varied. Growth in backlogs moderated considerably this month and capacity utilization fell below its all-time high readings seen in April and May. Vendor lead-time continued to grow at a solid pace, while inventories grew at a somewhat slower rate.

Looking ahead, manufacturers' optimism remained in place in June, though it was less rosy than last month. Firms anticipated that their shipments, new orders, capacity utilization, employment and the average workweek would grow in coming months, albeit less robustly. In contrast, they expected backlogs of orders and capital expenditures to grow more quickly.

Survey measures of prices revealed that raw materials prices grew on pace with May, while

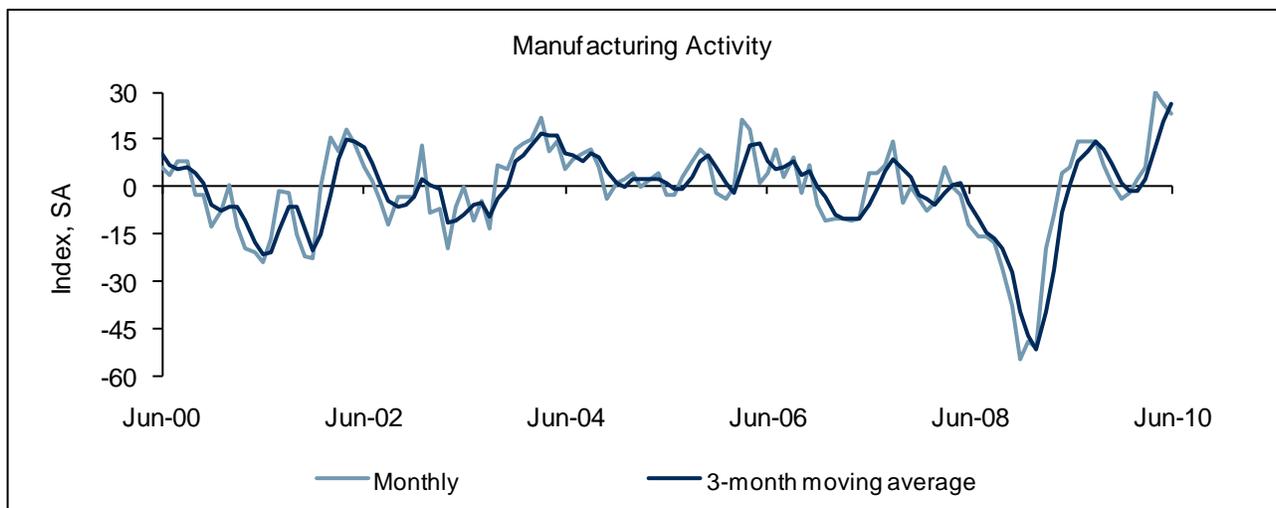
finished goods prices grew at a somewhat quicker rate. Respondents indicated that during the next six months they expected slower growth in both raw materials and finished goods prices from what they had anticipated last month.

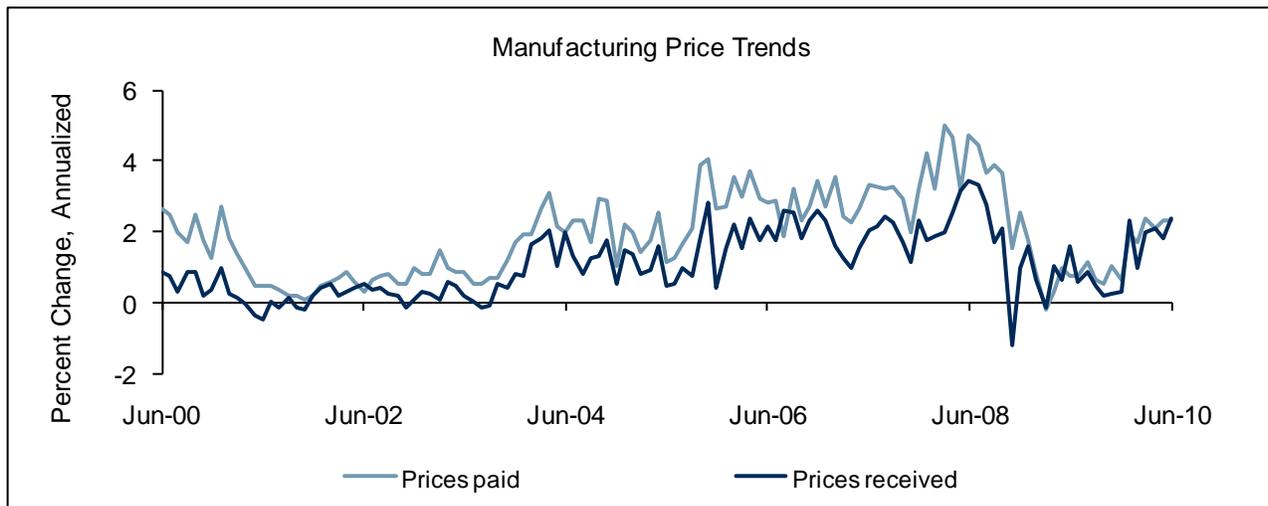
### Current Activity

In June, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—declined three points to 23 from May's reading of 26. Among the index's components, shipments eased one point to 31, new orders dropped 11 points to finish at 25, while the jobs index picked up five points to 9.

Other indicators were also mixed. The backlog of orders measure moved down 13 points to 3, and the index for capacity utilization fell six points to 21. The delivery times index recouped three points to end at 17.

Our gauges for inventories were slightly lower in June. The finished goods inventory index fell two points to 7, and the raw materials inventory index slipped two points to finish at 4.





**Employment**

District manufacturers' hiring plans for coming months strengthened in June. The manufacturing employment index registered a 9 versus May's reading of 4, and the average workweek measure added two points to 15. In contrast, wage growth lost 10 points to 10.

**Expectations**

In our latest survey, contacts remained mostly confident about their business prospects during the next six months, though somewhat less so than last month. The index of expected shipments declined 15 points to 40, and the new orders index fell 12 points to 38. In addition, the capacity utilization index moved down 10 points to 35, while the backlogs indicator edged up three points to 22. Moreover, the indexes for expected vendor delivery times and planned capital expenditures each posted a five-point gain to 17 and 25, respectively.

District manufacturers' hiring plans were slightly less optimistic as well. The expected manufacturing employment index subtracted eight points to fall to 11 from a month ago, and the average workweek indicator declined 12 points to end at 9. In addition, the expected wages index posted a nine-point loss to 25.

**Prices**

District manufacturers reported that raw materials prices increased at an average annual rate of 2.31 percent—a touch below May's reading of 2.33 percent. Finished goods prices rose at a 2.39 percent pace—somewhat above May's reading of 1.83.

Looking forward, respondents expected that the prices they pay will advance at a 1.51 percent pace, slightly below the previous month's expectation of 2.69 percent. Additionally, contacts looked for finished goods prices to increase at a 0.65 percent annual rate, also slightly below last month's expectation of 1.29 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](mailto:judy.cox@rich.frb.org)

[www.richmondfed.org](http://www.richmondfed.org)



<b>Business Activity Indexes<sup>1</sup></b>						
<b>General Business Assessment</b>	<b>Current Conditions</b>			<b>Expectations<sup>2</sup></b>		
	<b>Jun-10</b>	<b>May-10</b>	<b>Apr-10</b>	<b>Jun-10</b>	<b>May-10</b>	<b>Apr-10</b>
Fifth District Manufacturing Index <sup>3</sup>	23	26	30	--	--	--
<b>Company Conditions</b>						
Shipments	31	32	30	40	55	46
Volume of New Orders	25	36	41	38	50	44
Backlog of Orders	3	16	5	22	19	25
Capacity Utilization	21	27	27	35	45	38
Vendor Lead-time	17	14	17	17	12	17
Number of Employees	9	4	13	11	19	17
Average Workweek	15	13	16	9	21	22
Wages	10	20	6	25	34	43
Capital Expenditures	--	--	--	25	20	23
<b>Inventory Levels</b>						
Finished Goods Inventories	7	9	13	--	--	--
Raw Materials Inventories	4	6	9	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	2.31	2.33	2.11	1.51	2.69	2.79
Prices Received	2.39	1.83	2.08	0.65	1.29	1.39

**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 79 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.