

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Moderates in July; Expectations Slip*

### Overview

Manufacturing activity in the central Atlantic region expanded for the sixth consecutive month but at a more moderate pace in July, according to the Richmond Fed's latest survey. Looking at our main components of activity, employment continued to grow at a modest rate, while shipments and new orders grew at a rate below June's pace. Most other indicators also suggested slower growth. Backlogs eased and capacity utilization continued to grow more slowly. Vendor lead-time grew at a considerably slower rate, while inventories grew at a somewhat quicker pace.

Looking forward, manufacturers' optimism about their business prospects continued to wane, compared to a month ago—slowing was most evident in shipments, new orders, capacity utilization, and capital expenditures. In contrast, contacts expected employment and the average workweek to grow more quickly.

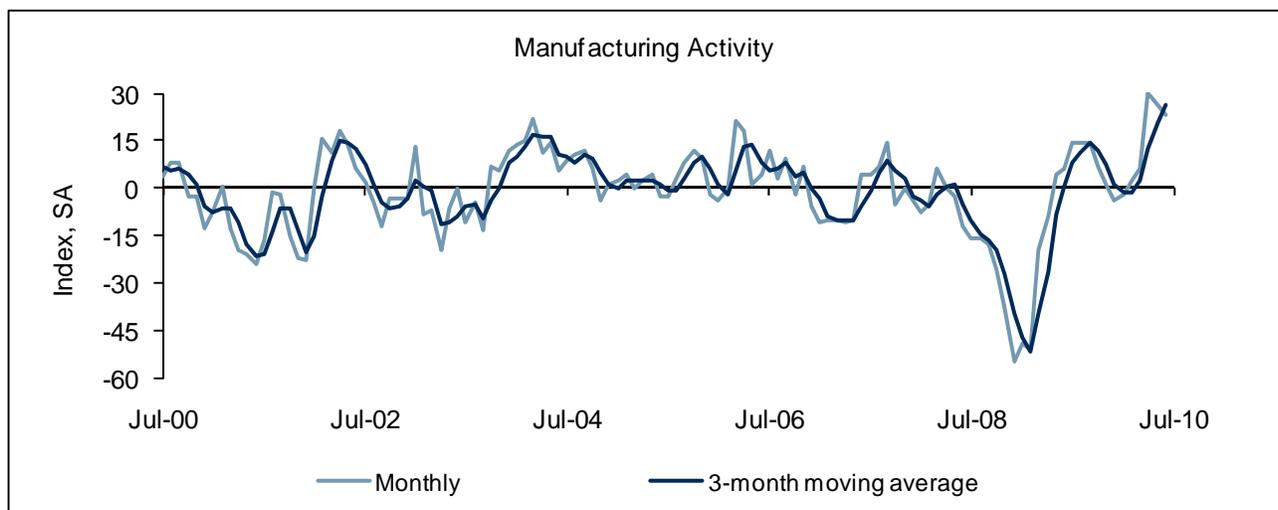
With respect to prices, both raw materials and finished goods prices grew at a more measure rate

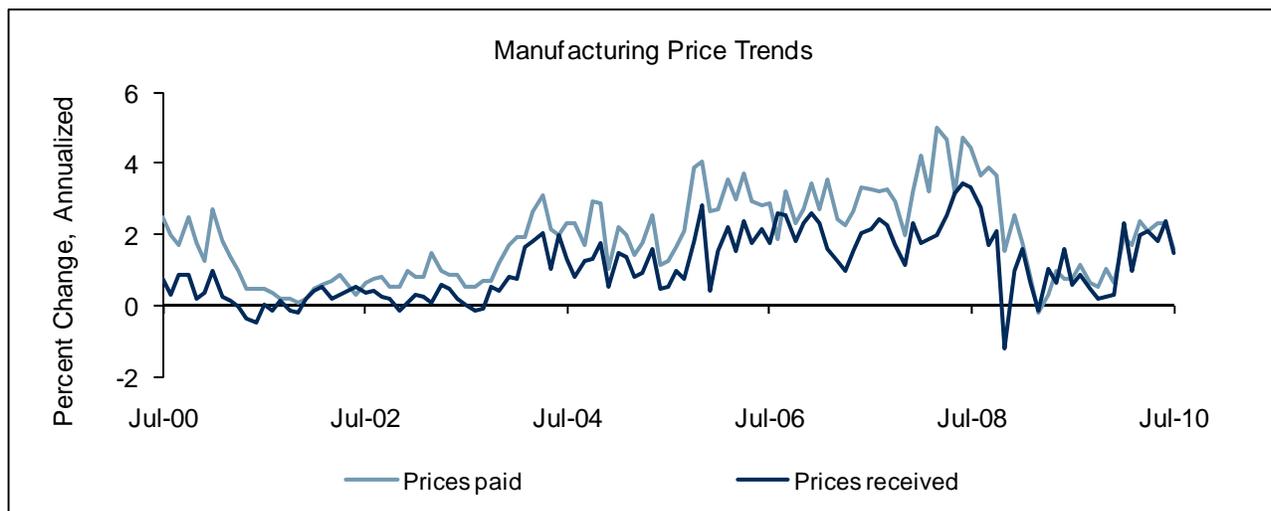
in July. Respondents indicated that during the next six months they expected somewhat faster growth in both raw materials and finished goods prices from what they had anticipated last month.

### Current Activity

In July, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—declined seven points to 16 from June's reading of 23. Among the index's components, shipments lost nine points to 22, new orders dropped 12 points to finish at 13, while the jobs index moved up six points to 15.

Other indicators also suggested somewhat slower activity. The backlog of orders measure moved down two points to 1, and the index for capacity utilization fell eight points to 13. The delivery times index retreated 13 points to end at 4. Our gauges for inventories were somewhat higher in July. The finished goods inventory index edged up one point to 8, and the raw materials inventory index moved up seven points to finish at 11.





### Employment

District manufacturers' hiring plans for coming months strengthened further in July. The manufacturing employment index registered a 15 versus June's reading of 9, and the average workweek measure added one point to 16. In addition, wage growth gained three points to 13.

### Expectations

In the July survey, contacts remained mostly confident about their business prospects during the next six months, though the readings slipped from June levels. The index of expected shipments declined 10 points to 30, and the new orders index fell 14 points to 24. In addition, the capacity utilization index moved down six points to 29, while the backlogs indicator was almost unchanged at 21. Moreover, expected vendor delivery times inched down four points to 13, and planned capital expenditures posted an eight-point loss to 17.

District manufacturers' hiring plans were mixed. The expected manufacturing employment index jumped 11 points to 22 from a month ago, and the average workweek indicator rose seven points to end at 16. In contrast, the expected wages index posted an eight-point loss to 17.

### Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.59 percent—a pullback from June's reading of 2.31 percent. Finished goods prices rose at a 1.45 percent pace—slightly below June's reading.

Looking ahead, respondents expected that the prices they pay will advance at a 1.74 percent pace, slightly above the previous month's expectation of 1.51 percent. Additionally, contacts looked for finished goods prices to increase at a 0.96 percent annual rate, also slightly above last month's expectation of 0.65 percent.

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Business Activity Indexes <sup>1</sup>						
General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Jul-10	Jun-10	May-10	Jul-10	Jun-10	May-10
Fifth District Manufacturing Index <sup>3</sup>	16	23	26	--	--	--
Company Conditions						
Shipments	22	31	32	30	40	55
Volume of New Orders	13	25	36	24	38	50
Backlog of Orders	1	3	16	21	22	19
Capacity Utilization	13	21	27	29	35	45
Vendor Lead-time	4	17	14	13	17	12
Number of Employees	15	9	4	22	11	19
Average Workweek	16	15	13	16	9	21
Wages	13	10	20	16	25	34
Capital Expenditures	--	--	--	17	25	20
Inventory Levels						
Finished Goods Inventories	8	7	9	--	--	--
Raw Materials Inventories	11	4	6	--	--	--
Price Trends <sup>4</sup>						
Prices Paid	1.59	2.31	2.33	1.74	1.51	2.69
Prices Received	1.45	2.39	1.83	0.96	0.65	1.29

**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.