

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Growth Continued to Ease in August; Expectations Drifted Lower*

### Overview

Manufacturing activity in the central Atlantic region advanced for the seventh consecutive month in August, but at a more modest pace than a month earlier, according to the Richmond Fed's latest survey. All broad indicators—shipments, new orders and employment—continued to grow but at a rate below July's pace. Other indicators were mixed, however. Capacity utilization grew nearly on par with last month, while growth in backlogs flatlined. Vendor delivery times grew at a slightly quicker rate and manufacturers reported somewhat faster growth in finished goods inventories.

Looking ahead, assessments of business prospects for the next six months were less optimistic in August. Survey contacts anticipated slower growth in shipments, new orders, capacity utilization, and capital expenditures and expected declines in backlogs and vendor lead time.

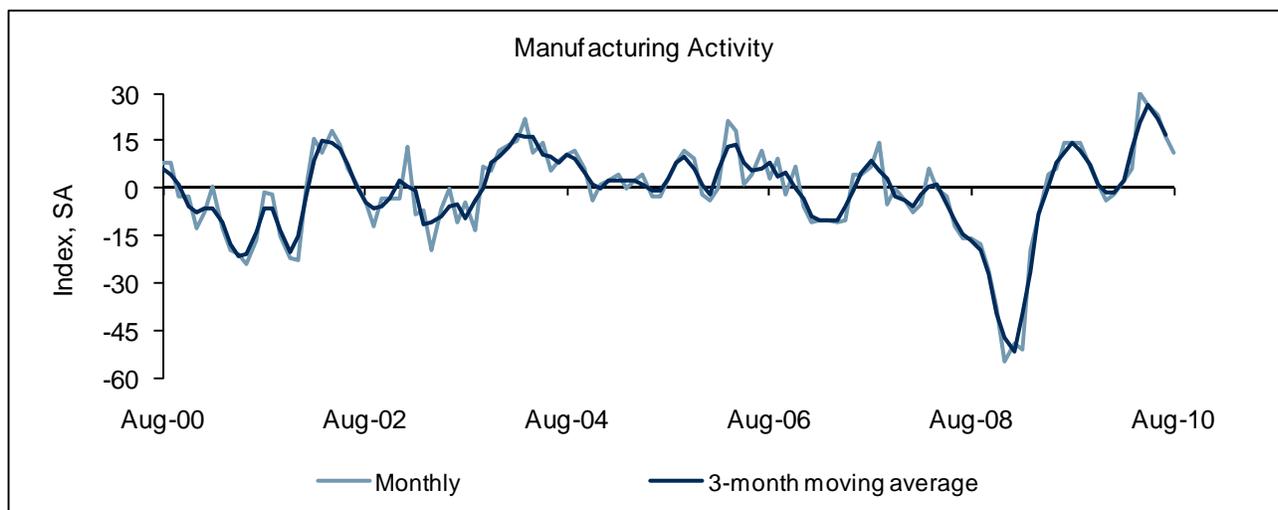
Survey measures of current prices revealed that raw materials prices grew at a quicker pace in

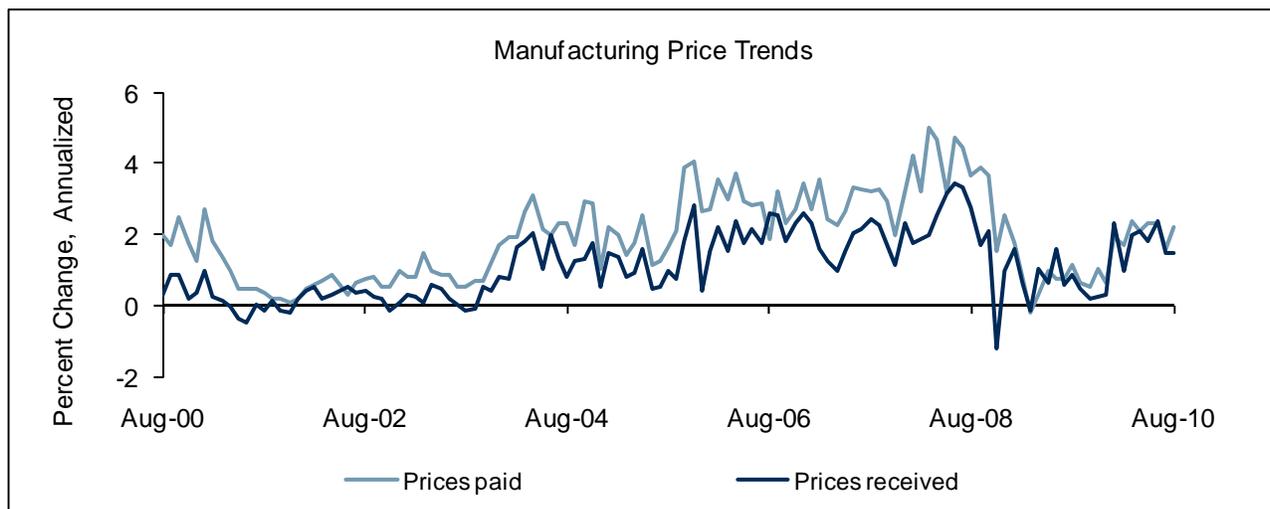
August, while finished goods prices grew on par with July. Respondents indicated that during the next six months they expected somewhat faster growth in raw materials prices, while they expected growth in finished goods prices to change little from what they had anticipated last month.

### Current Activity

In August, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—declined five points to 11 from July's reading of 16. Among the index's components, shipments declined 11 points to 11, new orders slipped three points to finish at 10, and the jobs index eased three points to 12.

Other indicators varied. The backlogs of orders measure flattened, and the index for capacity utilization was virtually unchanged at 14. The delivery times index picked up four points to end at 8. Our gauges for inventories were mixed in August. The finished goods inventory index edged up three points to 11, and the raw materials inventory index trimmed two points to finish at 9.





### Employment

Labor market activity changed little in August. The manufacturing employment index registered a 12 versus July's reading of 15, and the average workweek measure lost two points to 14. In addition, wage growth held steady at 13.

### Expectations

In the August survey, contacts were less confident about their business prospects during the next six months. The index of expected shipments plummeted 23 points to 7, and the new orders index fell eight points to 16. In addition, the capacity utilization index moved down 19 points to 10, while the backlogs and vendor lead time indicators turned negative, losing 22 and 14 points, respectively, to end at -1 for both measures. Moreover, planned capital expenditures posted a nine-point loss to 8.

District manufacturers' hiring plans were also less positive than a month ago. The expected manufacturing employment index reversed its 11-point gain in July to finish at 11, and the average workweek indicator retreated 15 points to 1. Furthermore, the expected wages index posted an eight-point loss to 16.

### Prices

District manufacturers reported that raw materials prices increased at an average annual rate of

2.19 percent—a pickup from July's reading of 1.59 percent. Finished goods prices were unchanged—matching June's 1.45 percent pace.

Looking forward, respondents expected that the prices they pay will advance at a 2.21 percent pace, slightly above the previous month's expectation of 1.74 percent. Additionally, contacts looked for finished goods prices to increase at a 0.91 percent annual rate, a tad below last month's expectation of 0.96 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>Aug-10</b>	<b>Jul-10</b>	<b>Jun-10</b>	<b>Aug-10</b>	<b>Jul-10</b>	<b>Jun-10</b>
Fifth District Manufacturing Index <sup>3</sup>	11	16	23	--	--	--
<b>Company Conditions</b>						
Shipments	11	22	31	7	30	40
Volume of New Orders	10	13	25	16	24	38
Backlog of Orders	0	1	3	-1	21	22
Capacity Utilization	14	13	21	10	29	35
Vendor Lead-time	8	4	17	-1	13	17
Number of Employees	12	15	9	11	22	11
Average Workweek	14	16	15	1	16	9
Wages	13	13	10	8	16	25
Capital Expenditures	--	--	--	8	17	25
<b>Inventory Levels</b>						
Finished Goods Inventories	11	8	7	--	--	--
Raw Materials Inventories	9	11	4	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	2.19	1.59	2.31	2.21	1.74	1.51
Prices Received	1.45	1.45	2.39	0.91	0.96	0.65

**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 110 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.