

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Pulled Back in September, But Expectations Upbeat

Overview

Manufacturing activity in the central Atlantic region pulled back in September after expanding during the previous seven months, according to the Richmond Fed's latest survey. The index of overall activity was pushed lower as shipments and employment edged into negative territory. Other indicators also suggested softer activity. District contacts reported that the volume of new orders flattened, order backlogs turned negative, and delivery times held steady. Furthermore, manufacturers reported growth in capacity utilization flat lined, while inventories grew at a slightly quicker pace.

Despite the decline in activity, manufacturers were more optimistic about their future prospects in September. Survey contacts anticipated that their shipments, new orders, backlog of orders, capacity utilization, and the average workweek would grow more rapidly in the months ahead.

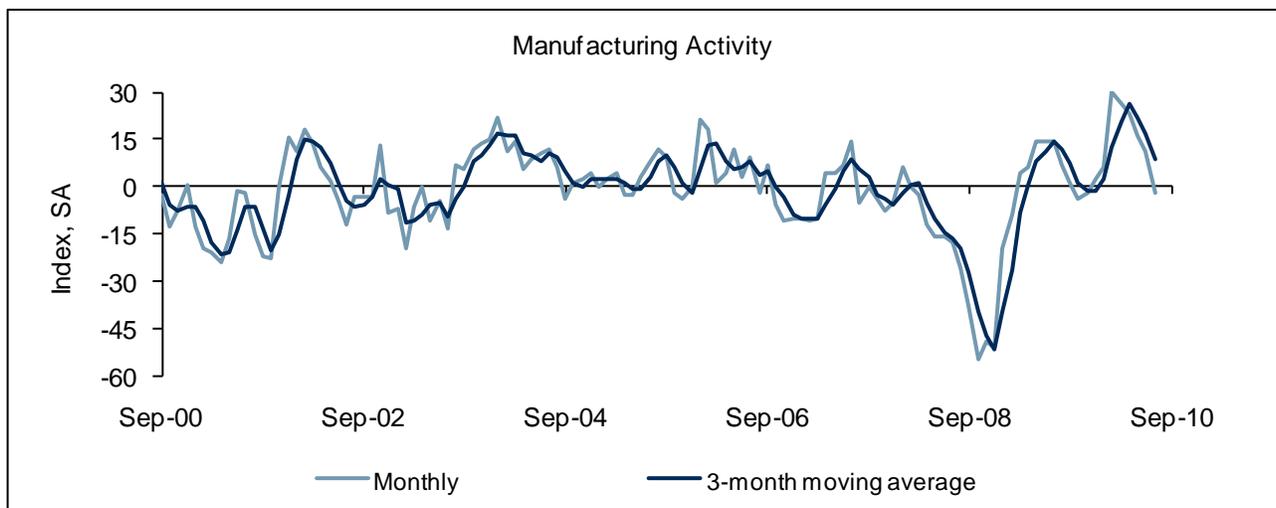
Survey measures of current prices revealed that both raw materials and finished goods prices grew at a more measured pace in September.

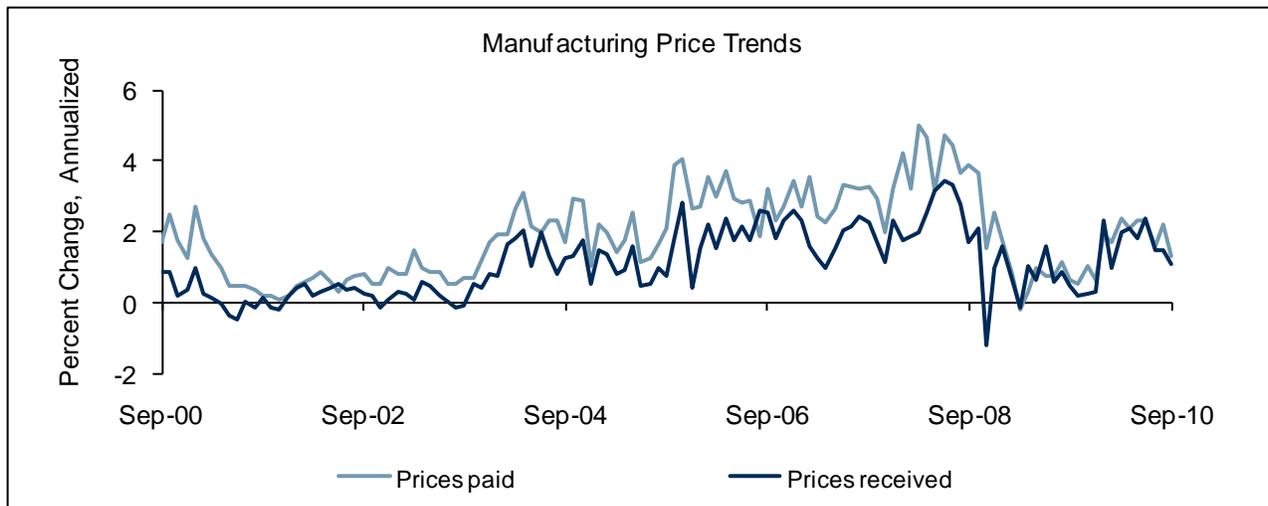
Respondents indicated that during the next six months they expected somewhat faster growth in both raw materials and finished goods prices from what they had anticipated last month.

Current Activity

In September, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—turned negative, losing thirteen points to -2 from August's reading of 11. Among the index's components, shipments fell fifteen points to -4, new orders lost ten points to finish at 0, and the jobs index declined fifteen points to -3.

Other indicators also suggested weaker activity. The backlogs of orders measure turned negative losing eleven points to -11, and the index for capacity utilization flattened declining fourteen points to 0. The delivery times index held steady at 8, while our gauges for inventories were somewhat higher in September. The finished goods inventory index inched up four points to 15, and the raw materials inventory index advanced four points to finish at 13.





Employment

Labor market activity also weakened in September. The manufacturing employment index registered a -3 versus August’s reading of 12, and the average workweek measure lost fourteen points to 0. In addition, wage growth posted a five-point loss to 8.

Expectations

In the September survey, contacts were more bullish about their business prospects during the next six months. The index of expected shipments skyrocketed thirty-one points to 38, and the new orders index climbed twenty-six points to 42. In addition, the capacity utilization index jumped twenty-three points to 33, and the backlogs indicator advanced twenty-one points to 20. The vendor lead time index turned positive, gaining seven points to 6, while planned capital expenditures held steady at 8.

District manufacturers’ intentions to expand hiring were also generally more bullish than a month ago. The expected manufacturing employment index was virtually unchanged at 10, and the average workweek indicator soared nineteen points to 20. Furthermore, the expected wages index posted a sixteen-point gain to 24.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.31 percent—a pullback from August’s reading of 2.19 percent. Finished goods prices rose at a 1.06 percent pace, which was somewhat below August’s reading of 1.45.

Looking ahead, respondents expected that the prices they pay will advance at a 2.46 percent pace, slightly above the previous month’s expectation of 2.21 percent. Additionally, contacts looked for finished goods prices to increase at a 1.17 percent annual rate, a bit above last month’s expectation of 0.91 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		
	Sep-10	Aug-10	Jul-10	Sep-10	Aug-10	Jul-10
Fifth District Manufacturing Index ³	-2	11	16	--	--	--
Company Conditions						
Shipments	-4	11	22	38	7	30
Volume of New Orders	0	10	13	42	16	24
Backlog of Orders	-11	0	1	20	-1	21
Capacity Utilization	0	14	13	33	10	29
Vendor Lead-time	8	8	4	6	-1	13
Number of Employees	-3	12	15	10	11	22
Average Workweek	0	14	16	20	1	16
Wages	8	13	13	24	8	16
Capital Expenditures	--	--	--	8	8	17
Inventory Levels						
Finished Goods Inventories	15	11	8	--	--	--
Raw Materials Inventories	13	9	11	--	--	--
Price Trends⁴						
Prices Paid	1.31	2.19	1.59	2.46	2.21	1.74
Prices Received	1.06	1.45	1.45	1.17	0.91	0.96

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.