

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Advanced in October; Expectations Remained Upbeat

Overview

Manufacturing activity in the central Atlantic region advanced modestly in October, following a slight pullback in September, according to the Richmond Fed's latest survey. Looking at the main components of activity, shipments and employment edged back into positive territory while the volume of new orders posted solid gains. Other indicators varied. District contacts reported that growth in order backlogs was virtually unchanged, while delivery times grew more slowly. Furthermore, manufacturers reported that capacity utilization grew at a faster pace, while inventories grew at a slightly slower rate.

Looking ahead, manufacturers' optimism remained in place in October. Survey contacts anticipated that their shipments, new orders, backlog of orders, and capital expenditures would grow more rapidly in the months ahead.

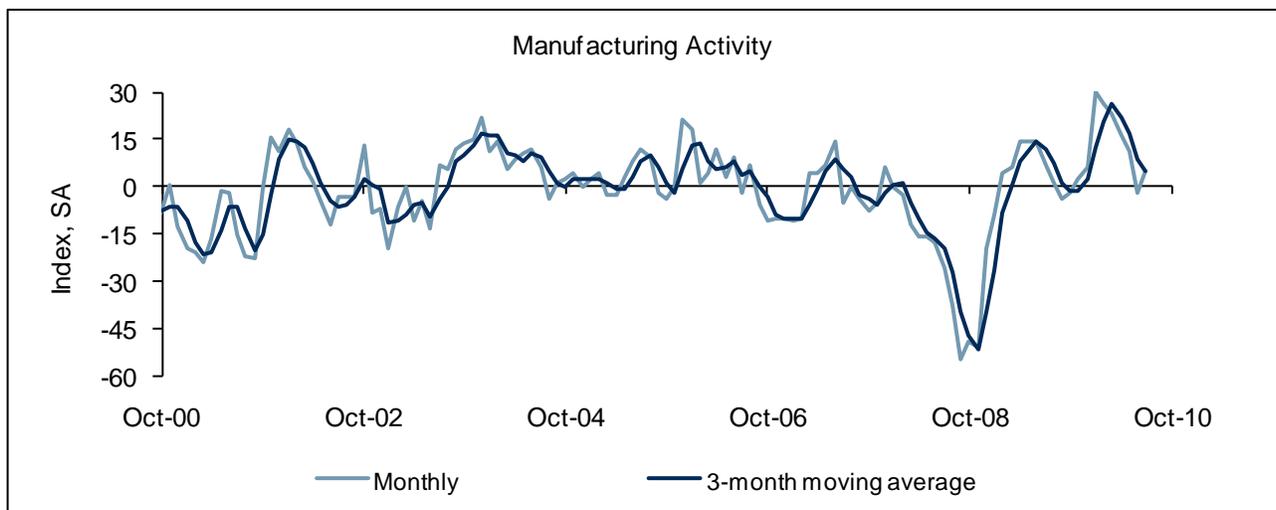
Survey measures of current prices revealed that raw materials prices grew at a slightly quicker pace in October, while finished goods prices grew on par with September. Respondents indicated that

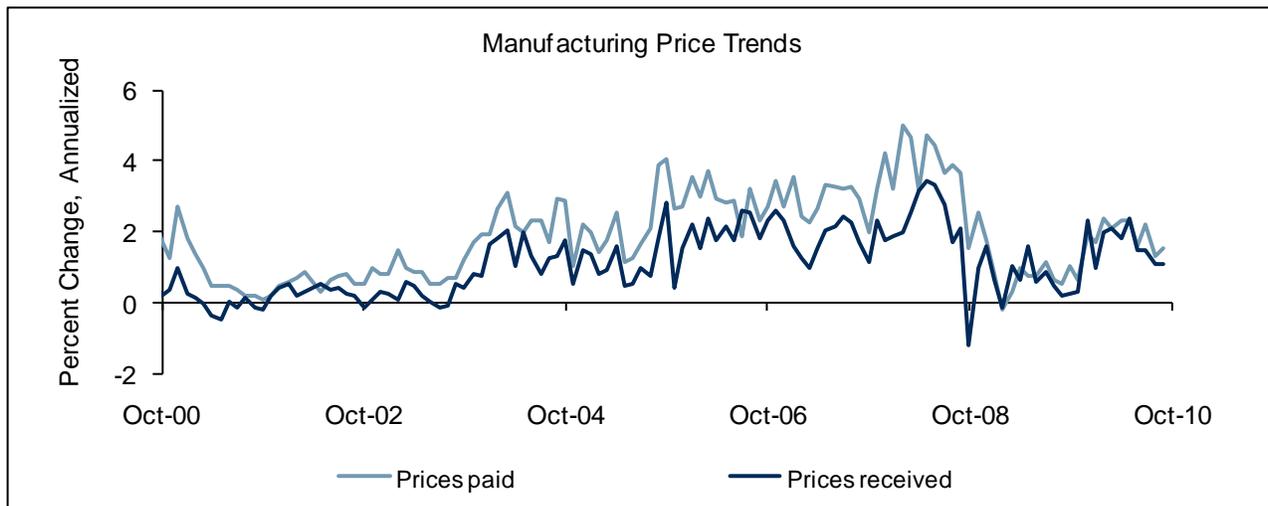
during the next six months they expected the prices of raw materials to change little from what they had anticipated last month, but expected somewhat faster growth in finished goods prices.

Current Activity

In October, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—turned positive, gaining seven points to 5 from September's reading of -2. Among the index's components, shipments rose seven points to 3, new orders picked up eight points to finish at 8, and the jobs index increased seven points to 4.

Other indicators were mixed. The backlogs of orders remained negative, losing one point to -12, and the index for capacity utilization moved up six points to 6. The delivery times index eased three points to end at 5, and our gauges for inventories were somewhat lower in October. The finished goods inventory index dropped nine points to 6, and the raw materials inventory index slipped three points to finish at 10.





Employment

Labor market activity firmed somewhat in October. The manufacturing employment index registered a 4 versus September’s reading of -3, and the average workweek measure was unchanged at 0. In addition, wage growth posted a four-point gain to 12.

Expectations

In the October survey, our contacts remained positive about their business prospects during the next six months. The index of expected shipments held steady at 38, and the new orders index edged up one point to 43. The capacity utilization index eased two points to 31, while the backlogs indicator advanced five points to 25. The vendor lead time index added one point to 7, while planned capital expenditures doubled, gaining eight points to end at 16.

District manufacturers’ intentions to expand hiring were mixed in October. The expected manufacturing employment index rose two points to 12, while the average workweek indicator dropped eleven points to 9. Moreover, the expected wages index posted a five-point loss to finish at 19.

Prices

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

1.54 percent compared to September’s reading of 1.31 percent. Finished goods prices rose at a 1.10 percent pace, little changed from September’s reading of 1.06.

Looking forward, respondents expected that the prices they pay will advance at a 2.40 percent pace, nearly unchanged from last month’s reading of 2.46 percent. Additionally, contacts looked for finished goods prices to increase at a 1.44 percent annual rate, slightly above last month’s expectation of 1.17 percent.

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Business Activity Indexes ¹						
General Business Assessment	Current Conditions			Expectations ²		
	Oct-10	Sep-10	Aug-10	Oct-10	Sep-10	Aug-10
Fifth District Manufacturing Index ³	5	-2	11	--	--	--
Company Conditions						
Shipments	3	-4	11	38	38	7
Volume of New Orders	8	0	10	43	42	16
Backlog of Orders	-12	-11	0	25	20	-1
Capacity Utilization	6	0	14	31	33	10
Vendor Lead-time	5	8	8	7	6	-1
Number of Employees	4	-3	12	12	10	11
Average Workweek	0	0	14	9	20	1
Wages	12	8	13	19	24	8
Capital Expenditures	--	--	--	16	8	8
Inventory Levels						
Finished Goods Inventories	6	15	11	--	--	--
Raw Materials Inventories	10	13	9	--	--	--
Price Trends ⁴						
Prices Paid	1.54	1.31	2.19	2.40	2.46	2.21
Prices Received	1.10	1.06	1.45	1.44	1.17	0.91

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 81 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.