

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Expanded at a Solid Pace in December; Expectations Remained Upbeat

Overview

Manufacturing activity in the central Atlantic region expanded at a quicker pace in December according to the Richmond Fed's latest survey. All broad indicators—shipments, new orders and employment—posted solid gains. Other indicators also suggested stronger activity. District contacts reported that order backlogs returned to positive territory and capacity utilization grew at a faster pace. Manufacturers reported that delivery times grew at a somewhat higher rate, while inventories grew at a somewhat slower pace.

Looking ahead, manufacturers' assessments of business prospects for the next six months were generally more optimistic in December. Survey contacts at more firms anticipated that shipments, new orders, backlog of orders, capacity utilization, and capital expenditures would grow more quickly during the next six months.

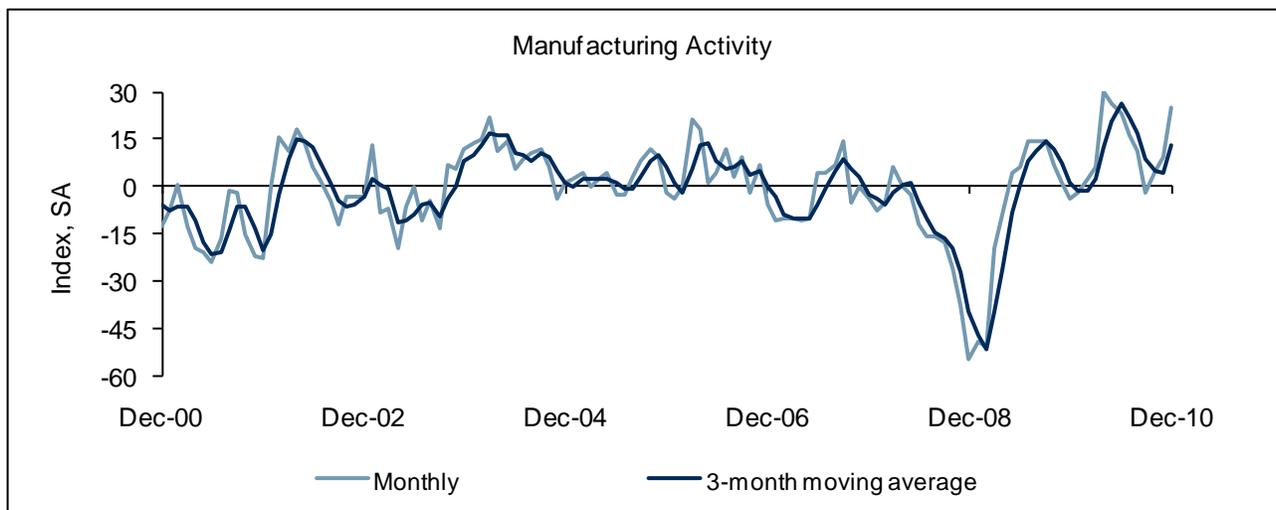
Survey measures of current prices revealed that prices of raw materials grew at a slightly quicker pace in December, while finished goods prices were little changed. Respondents indicated that

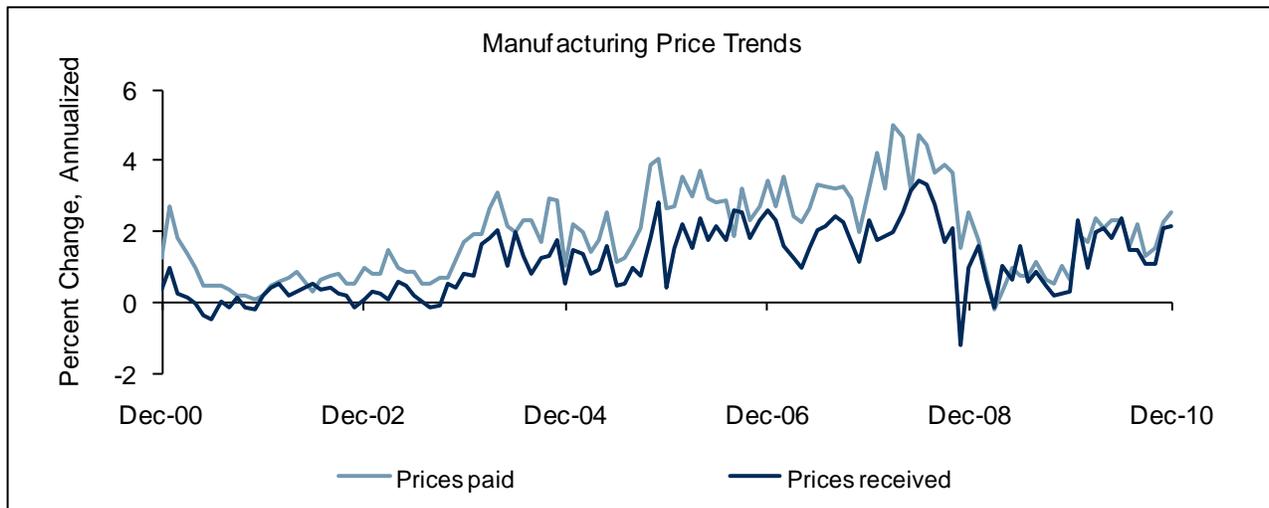
during the next six months they expected somewhat faster growth in both raw materials and finished goods prices from what they had anticipated last month.

Current Activity

In December, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—rose sixteen points to 25 from November's reading of 9. Among the index's components, shipments jumped twenty-three points to 30, new orders rose nineteen points to finish at 29, and the jobs index increased four points to 14.

Other indicators also suggested stronger activity. The index for capacity utilization moved up twelve points to 21, and the backlogs of orders turned positive, gaining seventeen points to 14. The delivery times index picked up eleven points to end at 17, while our gauges for inventories were somewhat lower in December. The finished goods inventory index decreased five points to 11, and the raw materials inventory index fell six points to finish at 9.





Employment

Hiring conditions continued to strengthen at District plants in December. The manufacturing employment index registered a 14 versus November’s reading of 10, and the average workweek measure moved up six points to 15. Moreover, wage growth doubled, gaining eight points to 16.

Expectations

In the December survey, our contacts were more bullish about their business prospects during the next six months. The indexes of expected shipments and new orders each moved up seven points to end at 43 and 47, respectively. The capacity utilization index added three points to 41, and the backlogs indicator recouped five points to end at 25. Planned capital expenditures edged up three points to 27, while the vendor lead time index eased two points to 17.

District manufacturers’ intentions to expand hiring were also more bullish in December. The expected manufacturing employment index increased sixteen points to 23, while the average workweek indicator improved one point to 11. In contrast, the expected wages index posted a three-point loss to finish at 34.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 2.53 percent from November’s reading of 2.23 percent. Finished goods prices rose at a 2.13 percent pace, compared to 2.10 percent last month.

Looking forward, respondents expected that the prices they pay will advance at a 3.70 percent pace compared to November’s reading of 3.30 percent. Additionally, contacts looked for finished goods prices to increase at a 2.41 percent annual rate, which was somewhat above last month’s expectation of 1.81 percent.

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Business Activity Indexes ¹						
General Business Assessment	Current Conditions			Expectations ²		
	Dec-10	Nov-10	Oct-10	Dec-10	Nov-10	Oct-10
Fifth District Manufacturing Index ³	25	9	5	--	--	--
Company Conditions						
Shipments	30	7	3	43	36	38
Volume of New Orders	29	10	8	47	40	43
Backlog of Orders	14	-3	-12	25	20	25
Capacity Utilization	21	9	6	41	38	31
Vendor Lead-time	17	6	5	17	19	7
Number of Employees	14	10	4	23	7	12
Average Workweek	15	9	0	11	10	9
Wages	16	8	12	34	37	19
Capital Expenditures	--	--	--	27	24	16
Inventory Levels						
Finished Goods Inventories	11	16	6	--	--	--
Raw Materials Inventories	9	15	10	--	--	--
Price Trends ⁴						
Prices Paid	2.53	2.23	1.54	3.70	3.30	2.40
Prices Received	2.13	2.10	1.10	2.41	1.81	1.44

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 77 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.