

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Advanced at a Healthy Pace in February; Expectations Strengthened and Price Growth Quickened*

### Overview

Manufacturing activity in the central Atlantic region expanded for the fifth straight month, 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 backlogs grew at a quicker pace and that growth in capacity utilization was virtually unchanged. Manufacturers reported that delivery times and finished goods inventories grew at a somewhat higher rate.

Looking ahead, manufacturers in February were more optimistic about their future prospects. Respondents at an increasing number of firms looked for rapid growth in shipments, new orders, backlog of orders, capacity utilization, employment, and the average workweek in the next six months.

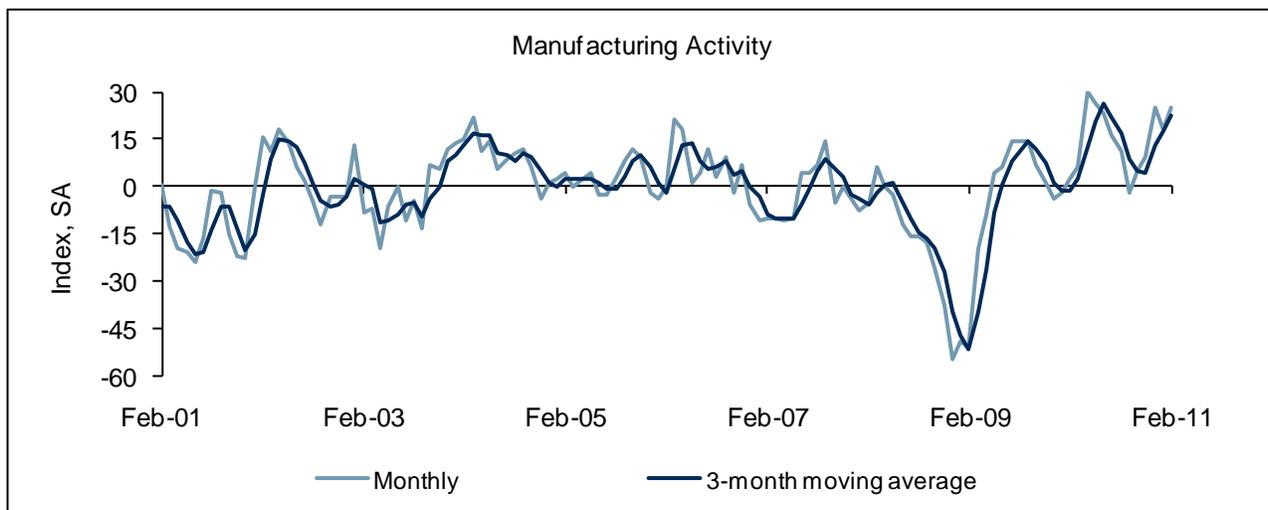
Survey measures of current prices revealed that both prices of raw materials and finished goods grew at a brisk pace in February. Moreover,

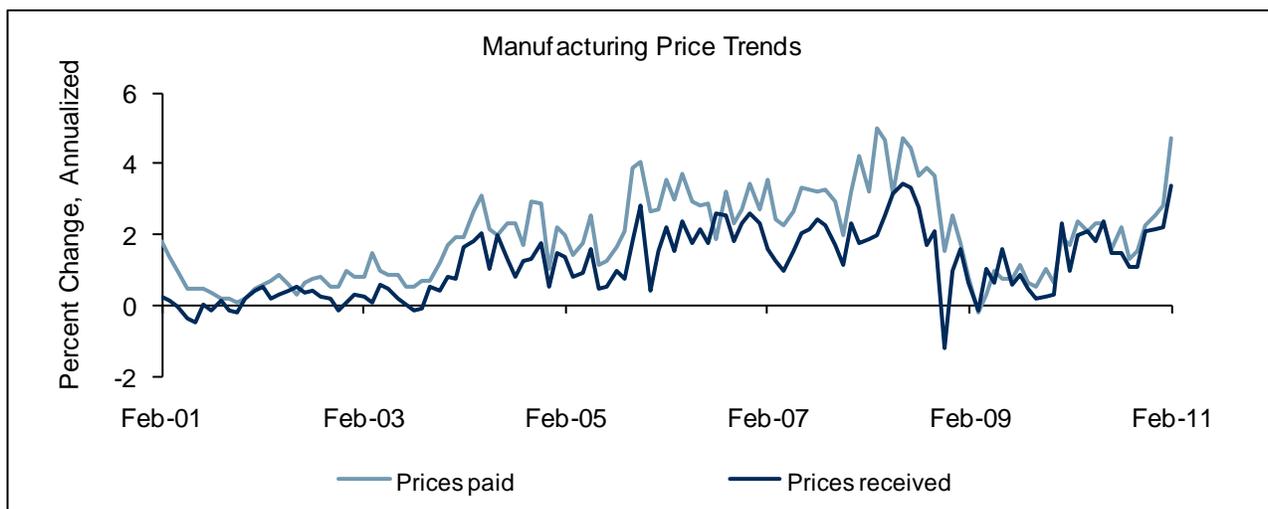
respondents indicated that during the next six months they expected growth in raw materials prices to quicken, and finished goods prices to change little from what they had anticipated last month.

### Current Activity

In February, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—rose seven points to 25 from January's reading of 18. Among the index's components, shipments increased six points to 29, new orders advanced ten points to finish at 27, and the jobs index edged up two points to 16.

Other indicators also suggested stronger activity. The index for backlogs of orders grew more quickly, gaining seven points to 12, while capacity utilization was almost unchanged at 17. The delivery times index moved up five points to end at 20, and our gauges for inventories were mixed in February. The finished goods inventory index added three points in February to end at 10, while





the raw materials inventories index eased one point to 8.

**Employment**

Hiring conditions continued to improve at District plants in February. The manufacturing employment index added two points to end at 16, and the average workweek measure moved up three points to 20. Moreover, wage growth gained five points to 18.

**Expectations**

Respondents in the current survey were more optimistic about their business prospects during the next six months. The index of expected shipments increased eleven points to end at 49, and the volume of new orders index rose eight points to 48. Backlogs jumped thirteen points to 31 and the capacity utilization index rose seven points to 41. The vendor lead time index inched up four points to 16. In contrast, readings for planned capital expenditures declined, the index registered a nine-point loss to 20.

District manufacturers' intentions to expand hiring were also more optimistic in February. The expected manufacturing employment index jumped ten points to 27, and the average workweek indicator advanced seven points to 20. The expected wages index held steady at 44.

**Prices**

District manufacturers reported that raw materials prices increased at an average annual rate of 4.72 percent—a sharp uptick from January's reading of 2.79 percent. Many contacts attributed the increase to rising materials price pressures. Finished goods prices rose at a 3.38 percent pace, also up considerably from January's reading of 2.17 percent last month.

Looking ahead, respondents expected that the prices they pay will advance at a 3.47 percent pace compared to January's reading of 3.17 percent. Additionally, contacts looked for finished goods prices to increase at a 2.38 percent annual rate, little changed from last month's expectation of 2.34 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](mailto:judy.cox@rich.frb.org)  
[www.richmondfed.org](http://www.richmondfed.org)

## Business Activity Indexes<sup>1</sup>

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Feb-11	Jan-10	Dec-10	Feb-11	Jan-10	Dec-10
Fifth District Manufacturing Index <sup>3</sup>	25	18	25	--	--	--
<b>Company Conditions</b>						
Shipments	29	23	30	49	38	43
Volume of New Orders	27	17	29	48	40	47
Backlog of Orders	12	5	14	31	18	25
Capacity Utilization	17	18	21	41	34	41
Vendor Lead-time	20	15	17	16	12	17
Number of Employees	16	14	14	27	17	23
Average Workweek	17	20	15	20	13	11
Wages	18	13	16	44	44	34
Capital Expenditures	--	--	--	20	29	27
<b>Inventory Levels</b>						
Finished Goods Inventories	10	7	11	--	--	--
Raw Materials Inventories	8	9	9	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	4.72	2.79	2.53	3.47	3.17	3.70
Prices Received	3.38	2.17	2.13	2.38	2.34	2.41

### 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 81 of 142 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.