

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Continues to Advance in March; Expectations Remain Upbeat

Overview

Manufacturing activity in the central Atlantic region expanded for the sixth straight month, according to the Richmond Fed's latest survey. Looking at the main components of activity, shipments and new orders grew more slowly, while employment growth held steady. Other indicators varied slightly but suggested continued solid activity. District contacts reported that backlogs grew at a slightly slower pace and that increases in capacity utilization and delivery times eased somewhat, while inventories grew at a somewhat higher rate.

Looking forward, manufacturers' optimism remained in place in March. Survey contacts at an increasing number of firms looked for solid growth in shipments, new orders, backlog of orders, capacity utilization, and capital expenditures in the next six months.

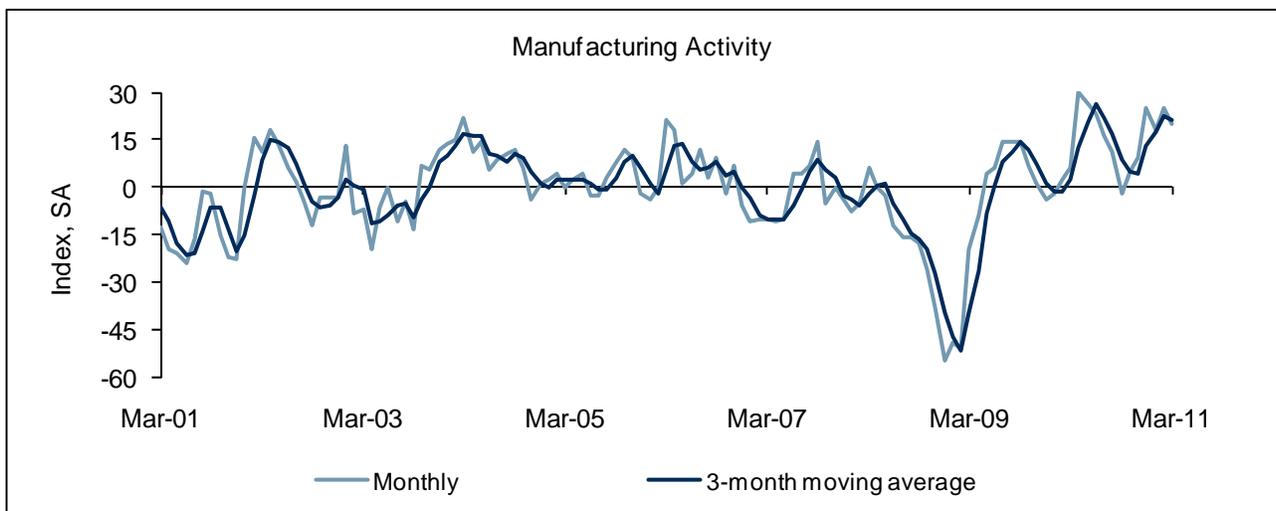
Survey measures of current prices revealed that both prices of raw materials and finished goods grew at a slightly slower pace in March. Respondents indicated that during the next six

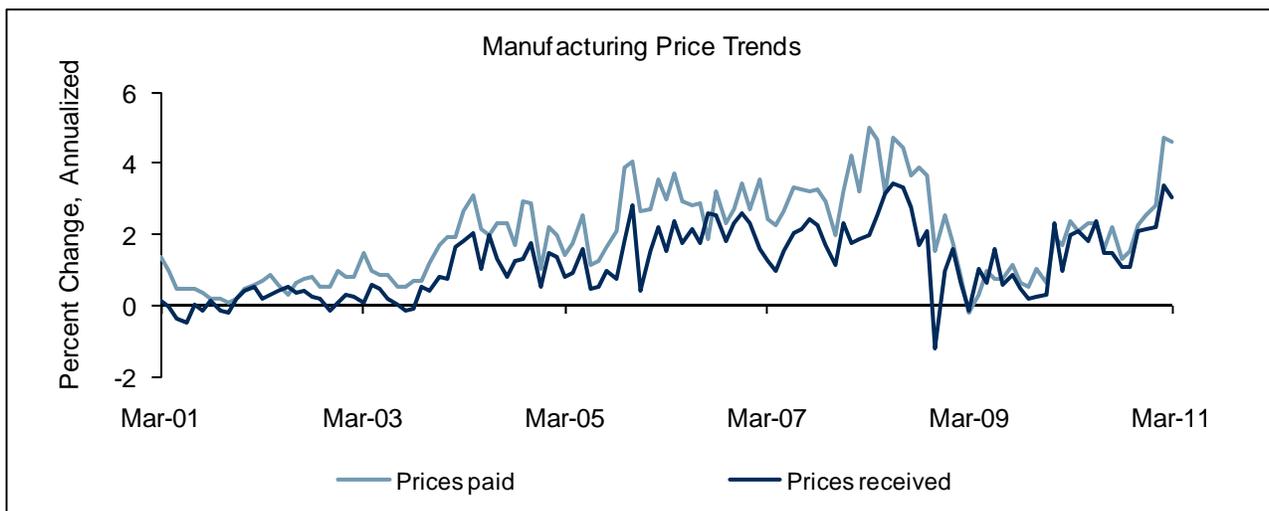
months they expected growth in raw materials prices to quicken, but they expected little change in finished goods prices from what they had anticipated last month.

Current Activity

In March, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—fell five points to 20 from February's reading of 25. Among the index's components, shipments decreased six points to 23, new orders dropped seven points to finish at 20, while the jobs index held firm at 16.

Other indicators also suggested continued solid growth. The index for capacity utilization edged down three points to 14 and the backlogs of orders grew more slowly, losing four points to 8. The delivery times index inched down four points to end at 16, while our gauges for inventories were somewhat higher in March. The finished goods inventory index inched up four points in March to end at 14, and the raw materials inventories index added one point to 9.





Employment

Hiring conditions continued to firm at Fifth District plants in March. The manufacturing employment index held steady at 16, while the average workweek measure moved down seven points to 10. In contrast, wage growth edged up one point to 19.

Expectations

Respondents in the current survey were generally optimistic about their business prospects over the next six months. The index of expected shipments decreased seven points to end at 42 and the volume of new orders index eased three points to 45. Backlogs dropped six points to end at 25 and the capacity utilization index lost seven points to 34, while the vendor lead time index edged up two points to 18. Readings for planned capital expenditures increased, the index registered an eight-point gain to 28.

District manufacturers' intentions to expand hiring were slightly less optimistic in March. The expected manufacturing employment index fell ten points to 17, and the average workweek indicator lost eight points to 12. In addition, the expected wages index posted a six-point loss to 38.

Prices

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

4.61 percent from February's reading of 4.72 percent. Finished goods prices rose at a 3.01 percent pace from February's reading of 3.38 percent last month.

Looking forward, respondents expected that the prices they pay will advance at a 4.31 percent pace—up considerably from February's reading of 3.47 percent. Additionally, contacts looked for finished goods prices to increase at a 2.40 percent annual rate, little changed from last month's expectation of 2.38 percent.

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Business Activity Indexes¹						
General Business Assessment	Current Conditions			Expectations²		
	Mar-11	Feb-10	Jan-10	Mar-11	Feb-10	Dec-10
Fifth District Manufacturing Index ³	20	25	18	--	--	--
Company Conditions						
Shipments	23	29	23	42	49	38
Volume of New Orders	20	27	17	45	48	40
Backlog of Orders	8	12	5	25	31	18
Capacity Utilization	14	17	18	34	41	34
Vendor Lead-time	16	20	15	18	16	12
Number of Employees	16	16	14	17	27	17
Average Workweek	10	17	20	12	20	13
Wages	19	18	13	38	44	44
Capital Expenditures	--	--	--	28	20	29
Inventory Levels						
Finished Goods Inventories	14	10	7	--	--	--
Raw Materials Inventories	9	8	9	--	--	--
Price Trends⁴						
Prices Paid	4.61	4.72	2.79	4.31	3.47	3.17
Prices Received	3.01	3.38	2.17	2.40	2.38	2.34

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 105 of 206 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.