

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Stalled in May; But Expectations Remain Upbeat*

### Overview

Manufacturing activity in the central Atlantic region paused in May, after expanding during the previous seven months, according to the Richmond Fed's latest survey. The index of overall activity was pushed into negative territory by weak readings for shipments and new orders, while employment growth held steady. Other indicators suggested additional softness. District contacts reported that capacity utilization turned negative and backlogs fell further, while delivery times grew more slowly. In addition, manufacturers reported an uptick in finished goods inventory growth.

Despite the recent decline in activity, manufacturers were generally optimistic about their future prospects in May. Survey contacts at an increasing number of firms looked for solid growth in shipments, new orders, capacity utilization and capital expenditures over the next six months.

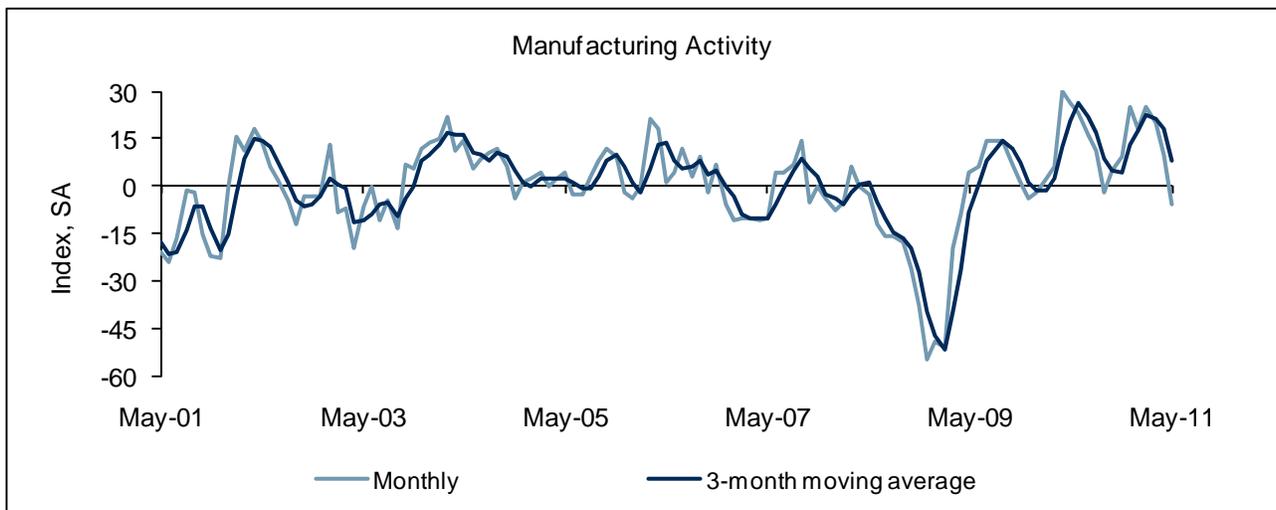
Survey measures of current prices revealed that prices of raw materials grew at a rapid pace, and finished goods grew at a slightly quickening pace

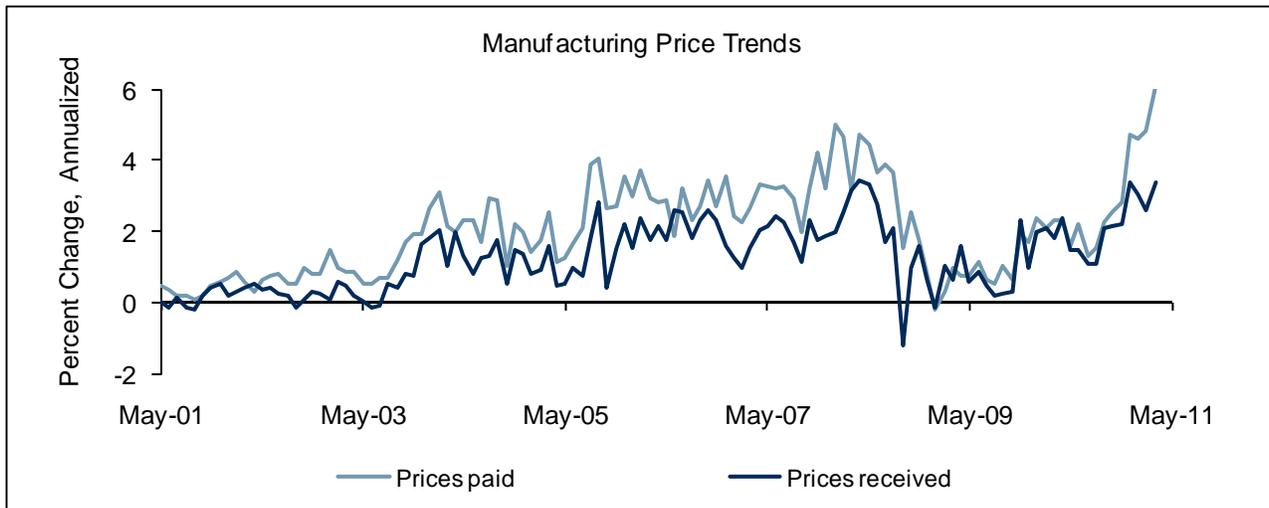
in May. Respondents indicated that during the next six months they expected growth in both raw materials and finished goods prices to slow somewhat from what they had anticipated last month.

### Current Activity

In May, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—fell sixteen points to -6 from April's reading of 10. Among the index's components, shipments decreased nineteen points to -13, new orders dropped twenty-five points to finish at -15, while the jobs index held steady at 14.

Other indicators were mostly weak. The index for capacity utilization moved down fourteen points to -12, and the backlog of orders index lost eighteen points to -19. The delivery times index declined thirteen points to end at 5, while our gauges for inventories were mixed in May. The finished goods inventory index edged up two points in May to end at 12, while the raw materials inventories index eased two points to 16.





**Employment**

The pace of hiring held steady at District plants in May. The manufacturing employment index was unchanged at 14 and the average workweek measure flattened, losing seven points to 0. However, wage growth slowed sharply, falling sixteen points to 6.

**Expectations**

Respondents in the current survey were generally upbeat about their business prospects over the next six months. The index of expected shipments added six points to end at 37 while the volume of new orders index increased two points to 40. Backlogs inched down five points to end at 22, while the capacity utilization was virtually unchanged at 27. The vendor lead-time index lost four points to finish at 8, and the planned capital expenditures index fell three points to 26.

District manufacturers' intentions to expand hiring firmed in May. The expected manufacturing employment index was unchanged at 17, and the average workweek indicator picked up two points to 14. In contrast, the expected wages index posted a two-point loss to 28.

**Prices**

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

6.12 percent in May—the highest reading since the inception of our survey in December 1993—compared to April's reading of 4.81 percent. Finished goods prices rose at a 3.36 percent pace—up slightly from April's reading of 2.60 percent last month.

Looking forward, respondents expected that the prices they pay will advance at a 3.63 percent pace, down somewhat from April's reading of 3.88 percent. Additionally, contacts looked for finished goods prices to increase at a 2.41 percent annual rate, down slightly from last month's expectation of 3.02 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)

<b>Business Activity Indexes<sup>1</sup></b>						
<b>General Business Assessment</b>	<b>Current Conditions</b>			<b>Expectations<sup>2</sup></b>		
	<b>May-11</b>	<b>Apr-11</b>	<b>Mar-11</b>	<b>May-11</b>	<b>Apr-11</b>	<b>Mar-11</b>
Fifth District Manufacturing Index <sup>3</sup>	-6	10	20	--	--	--
<b>Company Conditions</b>						
Shipments	-13	6	23	37	31	42
Volume of New Orders	-15	10	20	40	38	45
Backlog of Orders	-19	-1	8	22	27	25
Capacity Utilization	-12	2	14	27	28	34
Vendor Lead-time	5	18	16	8	12	18
Number of Employees	14	14	16	17	17	17
Average Workweek	0	7	10	14	12	12
Wages	6	22	19	28	30	38
Capital Expenditures	--	--	--	26	29	28
<b>Inventory Levels</b>						
Finished Goods Inventories	12	10	14	--	--	--
Raw Materials Inventories	16	18	9	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	6.12	4.81	4.61	3.63	3.88	4.31
Prices Received	3.36	2.60	3.01	2.41	3.02	2.40

**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 134 of 301 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.