

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Stabilized in June; Expectations Edge Higher*

### Overview

Manufacturing activity in the central Atlantic region firmed somewhat in June after stalling in May, according to the Richmond Fed's latest survey. The index of overall activity steadied as a slightly positive reading for new orders coupled with solid employment growth offset a slightly negative reading for shipments. Other indicators were mixed, however. District contacts reported more moderate weakness in backlogs and capacity utilization, but noted that delivery times and finished goods inventories grew at a somewhat quicker pace.

Looking ahead, manufacturers in June were more optimistic about their future business. Survey contacts at an increasing number of firms looked for solid growth in shipments, capacity utilization, new orders and capital expenditures over the next six months.

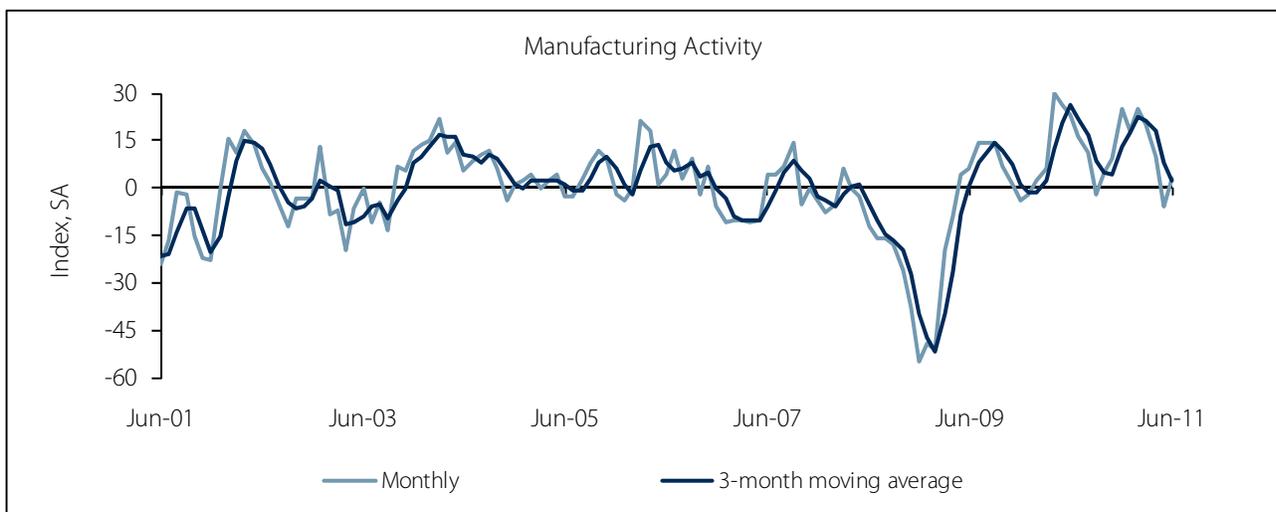
Survey assessments of current prices revealed that prices of both raw materials and finished goods grew at a more measured rate in June than a month ago. Respondents indicated that during

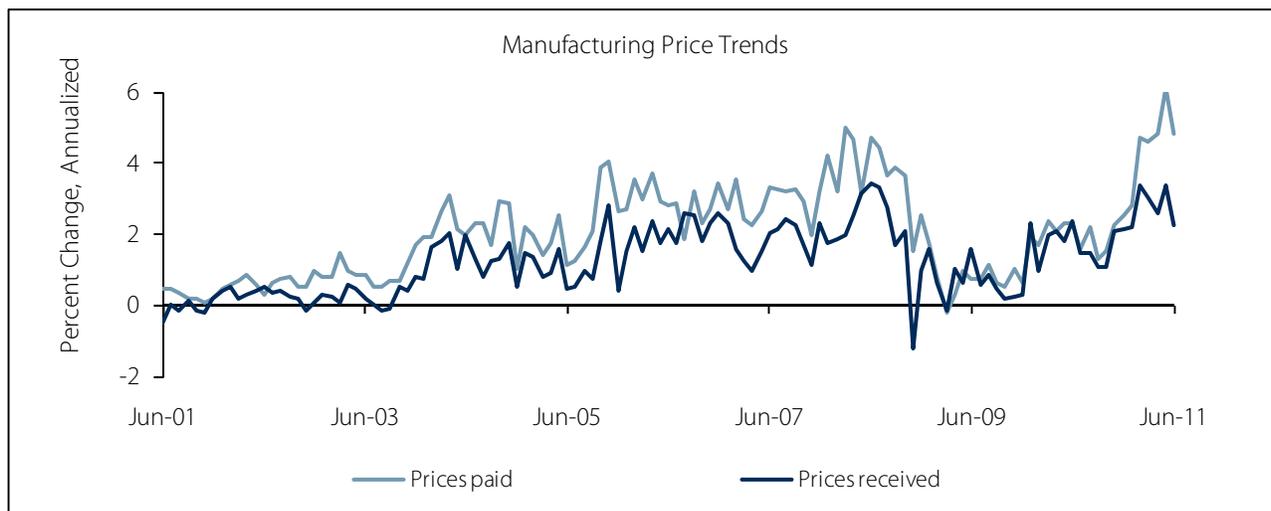
the next six months they expected growth in raw materials to grow more quickly and finished goods prices to maintain a steady pace from what they had anticipated last month.

### Current Activity

In June, the seasonally adjusted composite index of manufacturing activity — our broadest measure of the sector — picked up nine points to 3 from May's reading of -6. Among the index's components, shipments added twelve points to -1, new orders rose sixteen points to finish at 1, while the jobs index slipped two points to 12.

Other indicators varied. The index for capacity utilization did not quite escape negative territory, gaining ten points to -2, while the backlogs of orders edged up three points to end at -16. In addition, the delivery times index added two points to end at 7, while our gauges for inventories were mixed in June. The finished goods inventory index increased eleven points in June to end at 23, while the raw materials inventories index held constant at 16.





### Employment

Hiring activity at District plants was also mixed in June. The manufacturing employment index eased two points to 12 and the average workweek measure turned negative, losing five points to -5. However, wage growth edged higher, gaining three points to finish at 9.

### Expectations

Respondents in the current survey were generally more optimistic about their business prospects over the next six months. The index of expected shipments increased seven points to end at 44, and the volume of new orders index added six points to 46. Backlogs slipped two points to end at 20, while the capacity utilization rose six points to 33. Readings for vendor lead time and planned capital expenditures were virtually unchanged, with the latter losing one point to finish at 25 and the former registering a one-point gain to 9.

District manufacturers' intentions to expand hiring strengthened somewhat in June. The expected manufacturing employment index increased four points to end at 21, and the average workweek indicator held steady at 14. Moreover, the index of expected wages posted a three-point gain to 31.

### Prices

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

4.82 percent in June — down considerably from 6.12 percent in May. Finished goods prices rose at a 2.26 percent pace — somewhat below May's reading of 3.36 percent.

Looking ahead, respondents expected that the prices they pay will advance at a 4.28 percent pace, up somewhat from May's reading of 3.63 percent. Additionally, contacts looked for finished goods prices to increase at a 2.36 percent annual rate, a tad below last month's expected rate of 2.41 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>Jun-11</b>	<b>May-11</b>	<b>Apr-11</b>	<b>Jun-11</b>	<b>May-11</b>	<b>Apr-11</b>
Fifth District Manufacturing Index <sup>3</sup>	3	-6	10	--	--	--
<b>Company Conditions</b>						
Shipments	-1	-13	6	44	37	31
Volume of New Orders	1	-15	10	46	40	38
Backlog of Orders	-16	-19	-1	20	22	27
Capacity Utilization	-2	-12	2	33	27	28
Vendor Lead-time	7	5	18	9	8	12
Number of Employees	12	14	14	21	17	17
Average Workweek	-5	0	7	14	14	12
Wages	9	6	22	31	28	30
Capital Expenditures	--	--	--	25	26	29
<b>Inventory Levels</b>						
Finished Goods Inventories	23	12	10	--	--	--
Raw Materials Inventories	16	16	18	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	4.82	6.12	4.81	4.28	3.63	3.88
Prices Received	2.26	3.36	2.60	2.36	2.41	3.02

**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 125 of 320 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.