Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Paused in July; Optimism Waned

Overview

Manufacturing activity in the central Atlantic region stalled in July after firming somewhat in June, according to the Richmond Fed's latest survey. The index of overall activity was pushed lower as growth in new orders and shipments edged into negative territory. Employment, however, continued to grow but at a pace below June's rate. Other indicators also suggested softer activity. District contacts reported that backlogs and capacity utilization fell further, but noted that delivery times and raw material goods inventories grew at a somewhat quicker pace.

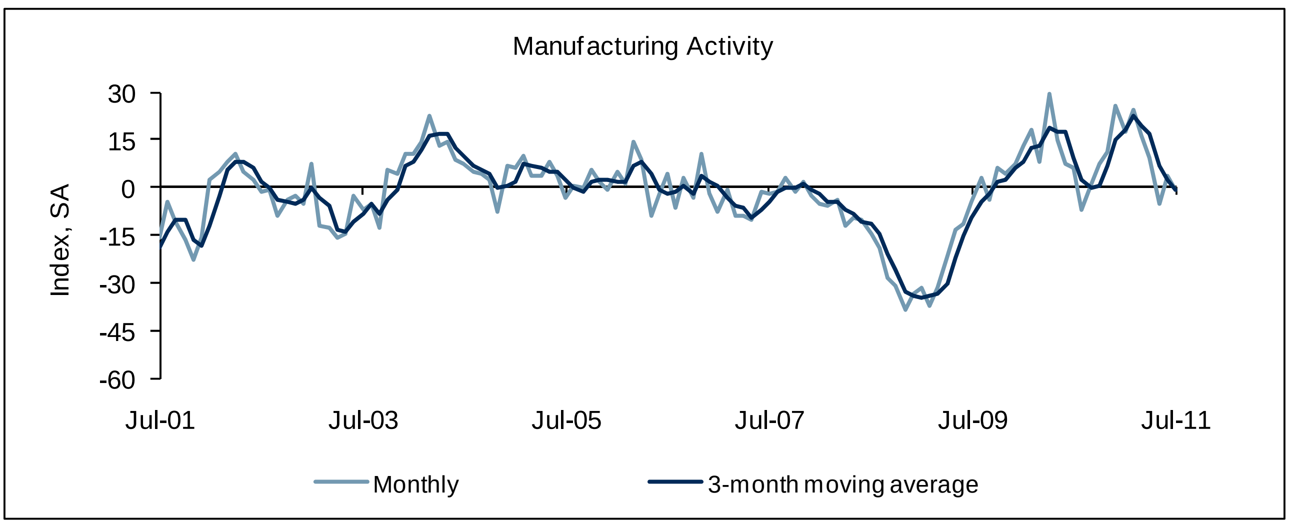
Looking forward, manufacturers were generally sanguine in July, though their optimism was somewhat less rosy than last month. Survey contacts at an increasing number of firms anticipated that their shipments, new orders, and capital expenditures would grow more slowly in coming months. In contrast, they expected backlogs of orders to grow more quickly.

Survey assessments of current prices revealed that current prices of both raw materials and finished goods grew at a slower rate in July than a month ago. However, respondents indicated that during the next six months they expected prices for both raw materials and finished goods to grow more quickly than what they had anticipated last month.

Current Activity

In July, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—declined four points to -1 from June's reading of 3. Among the index's components, shipments was unchanged at -1, while new orders dropped five points to finish at -5, and the jobs index moved down ten points to 4.

Other indicators were also mostly weak. The index for capacity utilization lost four points to -6 and the backlogs of orders edged down seven points to end at -18. In contrast, the delivery times index picked up four points to 8, while our gauges for inventories were mixed in July. The finished goods inventory index trimmed six points in July to end at 17, while the raw materials inventories index added two points to finish at 18.



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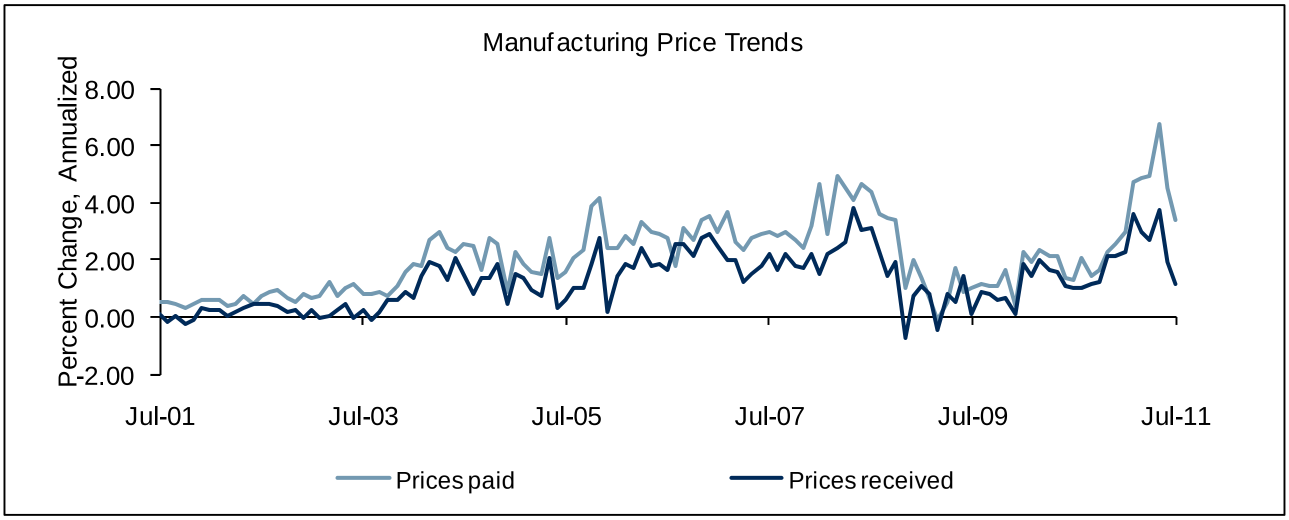

Employment

Hiring activity at District plants was mixed in July. The manufacturing employment index dropped ten points to 4, while the average workweek index added one point to 0. Moreover, wage growth edged higher, gaining one point to finish at 10.

Expectations

Respondents in the current survey were slightly less optimistic about their business prospects over the next six months. The index of expected shipments decreased eight points to end at 35, and the volume of new orders index fell four points to 40. The capacity utilization and vendor lead time indicators each edged down one point to 30 and 6, respectively. Readings for planned capital expenditures lost six points to finish at 16, while backlogs picked up six points to end at 25.

District manufacturers' intentions to expand hiring weakened somewhat in July. The expected manufacturing employment index declined eight points to end at 14, and the average workweek indicator slipped two points to 13. Moreover, the index of expected wages held steady at 30.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 3.41 percent in July—down somewhat from their 4.53 forecast in June. Finished goods prices rose at a 1.18 percent pace—somewhat below June's reading of 1.94 percent.

Looking ahead, respondents expected that the prices they pay will advance at a 4.35 percent pace, somewhat higher than June's reading of 3.41 percent. Additionally, contacts looked for finished goods prices to increase at a 2.97 percent annual rate, slightly above last month's expected rate of 1.93 percent.

(Note: Seasonal adjustment factors were recalculated this month and applied to historical data to better reflect current economic trends. Comparisons to last month's indexes are made to the revised June indexes. New factors will be calculated annually.)

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Business Activity Indexes[1,5]

General Business Assessment	Current Conditions			Expectations[2]		
	Jul-11	Jun-11	May-11	Jul-11	Jun-11	May-11
Fifth District Manufacturing Index[3]	-1	3	-5	--	--	--
Company Conditions						
Shipments	-1	-1	-11	35	43	39
Volume of New Orders	-5	0	-14	40	44	41
Backlog of Orders	-18	-11	-28	25	19	19
Capacity Utilization	-6	-2	-12	30	31	27
Vendor Lead-time	8	4	6	6	7	5
Number of Employees	4	14	16	14	22	18
Average Workweek	0	-1	2	13	15	15
Wages	10	9	5	30	30	29
Capital Expenditures	--	--	--	16	22	29
Inventory Levels						
Finished Goods Inventories	17	23	12	--	--	--
Raw Materials Inventories	18	16	17	--	--	--
Price Trends[4]						
Prices Paid	3.41	4.53	6.72	4.35	3.41	3.63
Prices Received	1.18	1.94	3.71	2.97	1.93	2.27

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 130 of 331firms 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 w eighted average of the shipments (33 percent), new orders (40 percent) and employment (27 percent) indexes. All firms surveyed are located w ithin the Fifth Federal Reserve District, w hich includes the District of Columbia, Maryland, North Carolina, South Carolina, Virginia, and most of West Virginia.

4 Price changes are expressed a percent change, annualized.

5 These data include recalculation of seasonal adjustment factors and revised history to better reflect current economic trends.