

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Pulled Back Markedly in August; Shipments and New Orders Declined

Overview

Manufacturing activity in the central Atlantic region pulled back in August after stalling in July, according to the Richmond Fed's latest survey. The index of overall activity was pushed lower as growth in new orders and shipments declined further into negative territory. Employment remained in positive territory but grew at a pace below July's rate. Other indicators also suggested weakening activity. District contacts indicated that backlogs and capacity utilization continued to contract, while delivery times turned negative. Moreover, manufacturers reported that inventory building remained on pace with July.

Looking ahead, manufacturers' optimism regarding future business prospects dropped considerably in August. An increasing number of firms anticipated slower growth across the board for all future activity indicators.

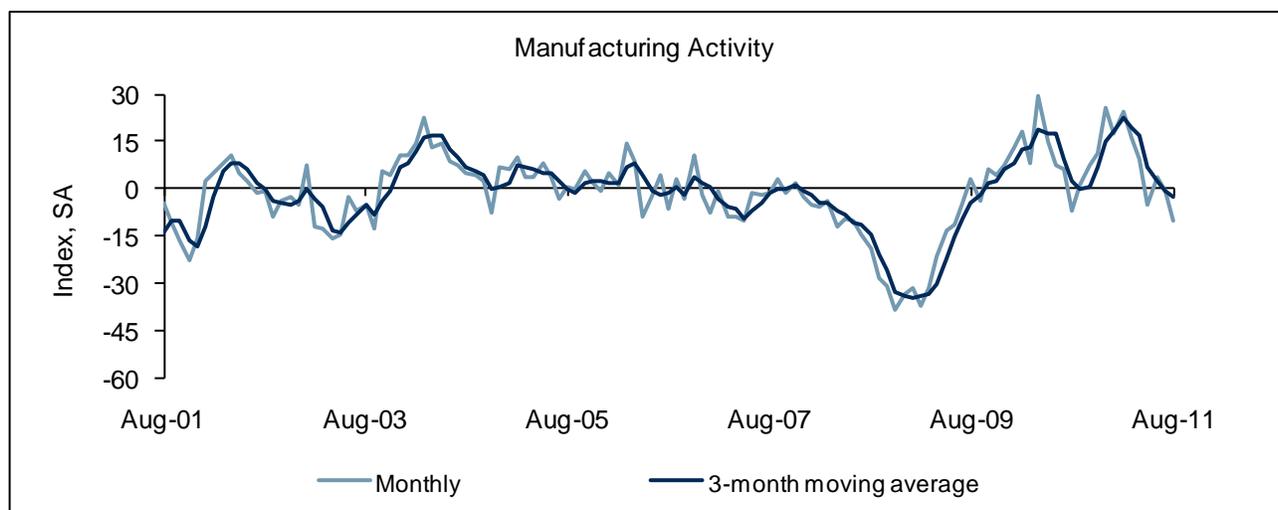
Survey assessments of current prices revealed that both raw materials and finished goods prices grew at a somewhat quicker rate in August than a month ago. In addition, respondents indicated that

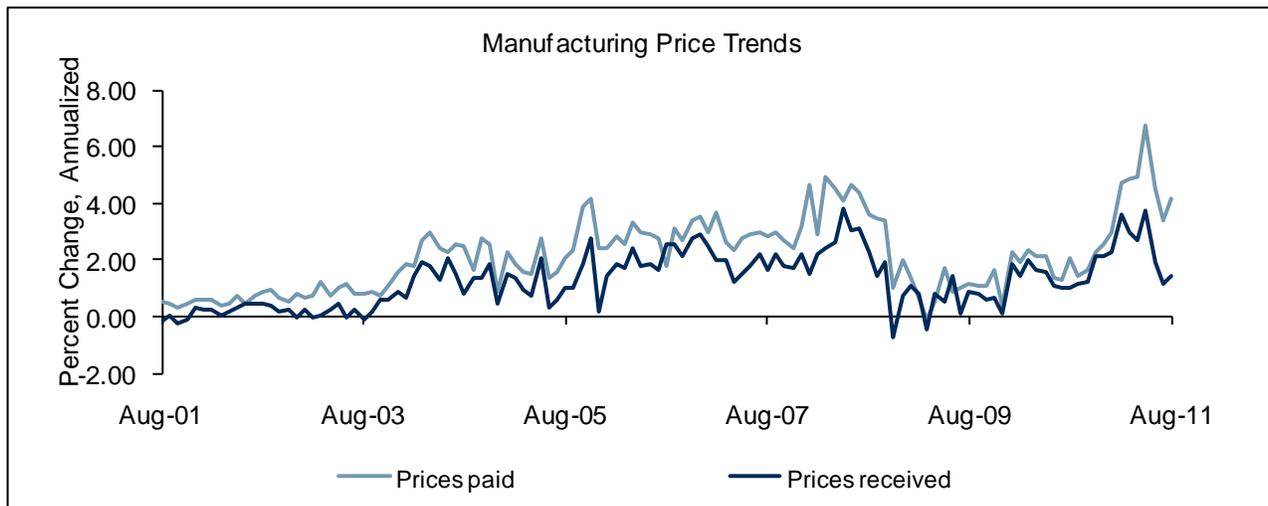
during the next six months they expected growth in both raw materials and finished goods prices to advance more quickly from what they had anticipated last month.

Current Activity

In August, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—declined nine points to -10 from July's reading of -1. Among the index's components, shipments lost sixteen points to -17, and new orders dropped six points to finish at -11, while the jobs index inched down three points to 1.

Other indicators also suggested additional softening. The index for capacity utilization declined eight points to -14 and the backlogs of orders fell seven points to end at -25. Additionally, the delivery times index moved down twelve points to end at -4, while our gauges for inventories were virtually unchanged in August. The finished goods inventory index held steady at 17 in August, while the raw materials inventories index added one point to finish at 19.





Employment

Hiring activity at District plants slowed in August. The manufacturing employment index subtracted three points to 1 and the average workweek index moved down five points to -5. Moreover, wage growth eased, losing eight points to finish at 2.

Expectations

Respondents in the current survey were notably less optimistic about their business prospects over the next six months. All indicators for future activity fell but remained in positive territory. The index of expected shipments decreased eighteen points to end at 17, and the volume of new orders index fell twenty-three points to 17. Backlogs moved down twenty-one points to end at 4 and the capacity utilization index dropped fifteen points to 15. Moreover, the vendor lead time indicator edged down three points to 3 and readings for planned capital expenditures lost six points to finish at 10.

District manufacturers' intentions to expand hiring also weakened in August. The expected manufacturing employment index declined nine points to finish at 5 and the average workweek indicator slipped one point to end at 12. In addition, the index of expected wages lost ten points to 20.

Prices

District manufacturers reported that raw materials

prices increased at an average annual rate of 4.16 percent in August—up somewhat from their 3.41 forecast in July. Finished goods prices rose at a 1.46 percent pace—also somewhat above July's reading of 1.18 percent.

Looking forward, respondents expected that the prices they pay will advance at a 4.54 percent pace, somewhat higher than July's reading of 4.35 percent. Additionally, contacts looked for finished goods prices to increase at a 3.35 percent annual rate, also slightly above last month's expected rate of 2.97 percent.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Aug-11	Jul-11	Jun-11	Aug-11	Jul-11	Jun-11
Fifth District Manufacturing Index ³	-10	-1	3	--	--	--
Company Conditions						
Shipments	-17	-1	-1	17	35	43
Volume of New Orders	-11	-5	0	17	40	44
Backlog of Orders	-25	-18	-11	4	25	19
Capacity Utilization	-14	-6	-2	15	30	31
Vendor Lead-time	-4	8	4	3	6	7
Number of Employees	1	4	14	5	14	22
Average Workweek	-5	0	-1	12	13	15
Wages	2	10	9	20	30	30
Capital Expenditures	--	--	--	10	16	22
Inventory Levels						
Finished Goods Inventories	17	17	23	--	--	--
Raw Materials Inventories	19	18	16	--	--	--
Price Trends⁴						
Prices Paid	4.16	3.41	4.53	4.54	4.35	3.41
Prices Received	1.46	1.18	1.94	3.35	2.97	1.93

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 131 of 331 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 a percent change, annualized.