

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Contracted at a Slightly Slower Pace in September, While Employment Grew and Expectations Improved*

### Overview

Manufacturing activity in the central Atlantic region contracted at a less pronounced rate this month, according to the Richmond Fed's latest survey. Looking at the main components of activity, employment grew at a slightly quicker rate, while shipments exhibited more moderate weakness and new orders slipped further into negative territory. Evidence of diminished weakness was also reflected in most other indicators. District contacts reported that backlogs, capacity utilization, and delivery times remained negative but improved from August's readings. Manufacturers reported somewhat quicker growth in finished goods inventories.

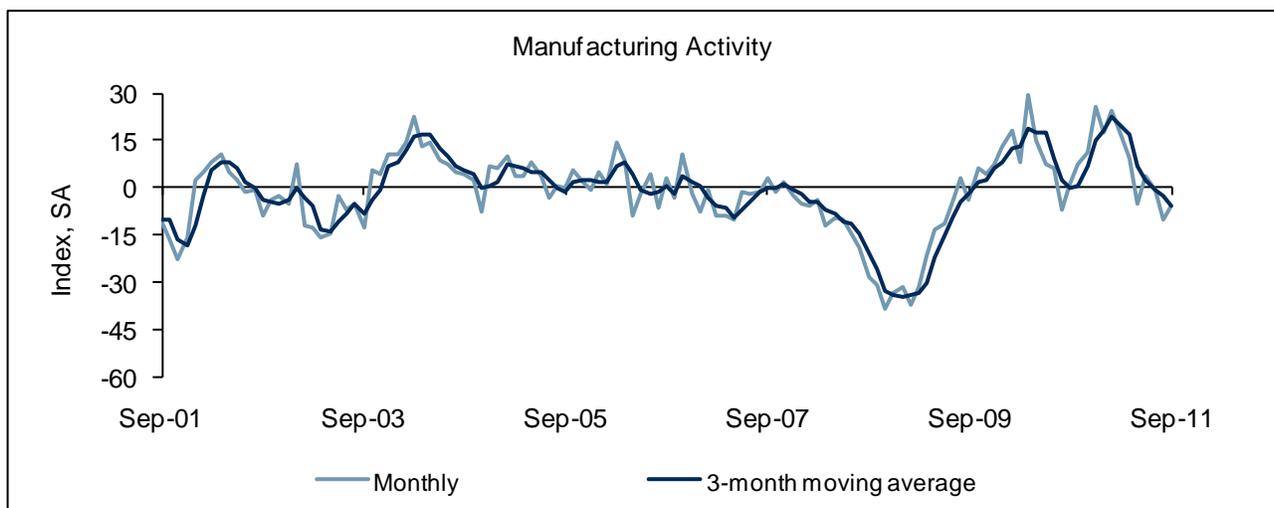
Looking forward, manufacturers' assessments of business prospects for the next six months were more optimistic in September. Contacts at more firms anticipated that shipments, new orders, backlogs, and capacity utilization would grow more quickly during the next six months than they expected in August, while growth in capital expenditures would be slower.

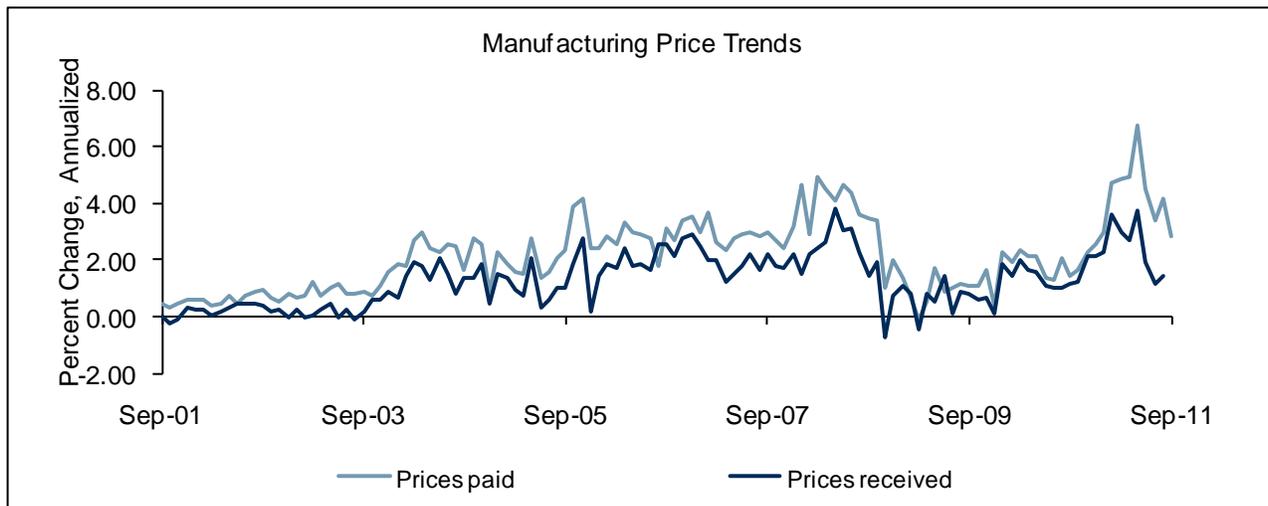
Survey assessments of current prices revealed that raw materials grew at a somewhat slower rate in September than a month ago, while finished goods prices grew at a slightly faster pace. Over the next six months, respondents expected growth in raw materials prices to rise roughly on pace with August's expectations. They also anticipated price growth in finished goods to increase more slowly.

### Current Activity

In September, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—increased four points to -6 from August's reading of -10. Among the index's components, shipments gained fifteen points to -2, new orders dropped six points to finish at -17, and the jobs index moved up six points to 7.

Most other indicators also suggested more moderate weakness. The index for capacity utilization picked up three points to -11 and the backlogs of orders edged up two points to finish at -23. Additionally, the delivery times index added two points to end at -2, while our gauges for





inventories were mixed in September. The raw materials inventories index was virtually unchanged at 18, while the finished goods inventory index gained five points to end at 22.

**Employment**

Weak labor markets persisted in September, although there were some signs that the weakness was abating. The manufacturing employment index moved up six points to 7, while the average workweek index eased two points to -7. Wage growth, however, gained four points to finish at 6.

**Expectations**

In our September survey, our contacts were more confident about their business prospects for the next six months. The indexes of expected shipments and new orders each increased ten points, with both indicators finishing at 27. Backlogs moved up eight points to end at 12 and the capacity utilization index rose five points to 20. Moreover, the vendor lead time indicator picked up eight points to 11, while readings for planned capital expenditures lost five points to finish at 5.

District manufacturers' hiring plans changed little in September. The expected manufacturing employment index and the average workweek indicator each slipped two points to finish at 3 and 10, respectively. In contrast, the index of expected wages gained four points to 24.

**Prices**

District manufacturers reported that raw materials prices increased at an average annual rate of 2.80 percent in September—down considerably from 4.16 percent in August. Finished goods prices rose at a 1.61 percent pace compared with August's reading of 1.46 percent.

Looking ahead, respondents expected that the prices they pay will advance at a 4.45 percent pace, nearly matching August's reading of 4.54 percent. Additionally, contacts looked for finished goods prices to increase at a 2.39 percent annual rate, somewhat below last month's expected rate of 3.35 percent.

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## Business Activity Indexes<sup>1</sup>

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Sep-11	Aug-11	Jul-11	Sep-11	Aug-11	Jul-11
Fifth District Manufacturing Index <sup>3</sup>	-6	-10	-1	--	--	--
<b>Company Conditions</b>						
Shipments	-2	-17	-1	27	17	35
Volume of New Orders	-17	-11	-5	27	17	40
Backlog of Orders	-23	-25	-18	12	4	25
Capacity Utilization	-11	-14	-6	20	15	30
Vendor Lead-time	-2	-4	8	11	3	6
Number of Employees	7	1	4	3	5	14
Average Workweek	-7	-5	0	10	12	13
Wages	6	2	10	24	20	30
Capital Expenditures	--	--	--	5	10	16
<b>Inventory Levels</b>						
Finished Goods Inventories	22	17	17	--	--	--
Raw Materials Inventories	18	19	18	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	2.80	4.16	3.41	4.45	4.54	4.35
Prices Received	1.61	1.46	1.18	2.39	3.35	2.97

**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 120 of 362 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.