

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Contraction Persists in October; Employment Turns Negative

Overview

Manufacturing activity in the central Atlantic region continued to contract in October, according to the Richmond Fed's latest survey. The index of overall activity remained at last month's level with all broad indicators—shipments, new orders, and employment—landing in negative territory. Continued softness was also evident in most other indicators. District contacts reported more moderate weakness in backlogs and capacity utilization, but noted that delivery times and raw materials inventories grew at a somewhat quicker pace.

Looking ahead, manufacturers' assessments of business prospects for the next six months were on par with last month. Contacts at more firms anticipated that shipments, new orders, backlogs, and capacity utilization would grow roughly on pace with September's expectations, while growth in capital expenditures would be faster.

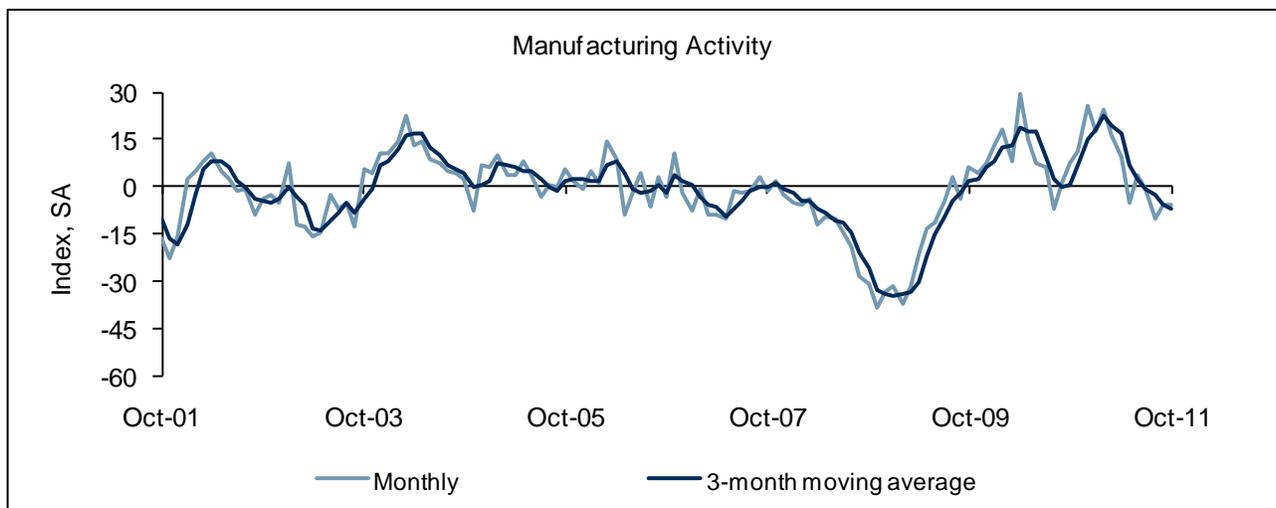
Survey assessments of current prices revealed that raw materials grew at a somewhat slower rate in October than a month ago, while finished goods

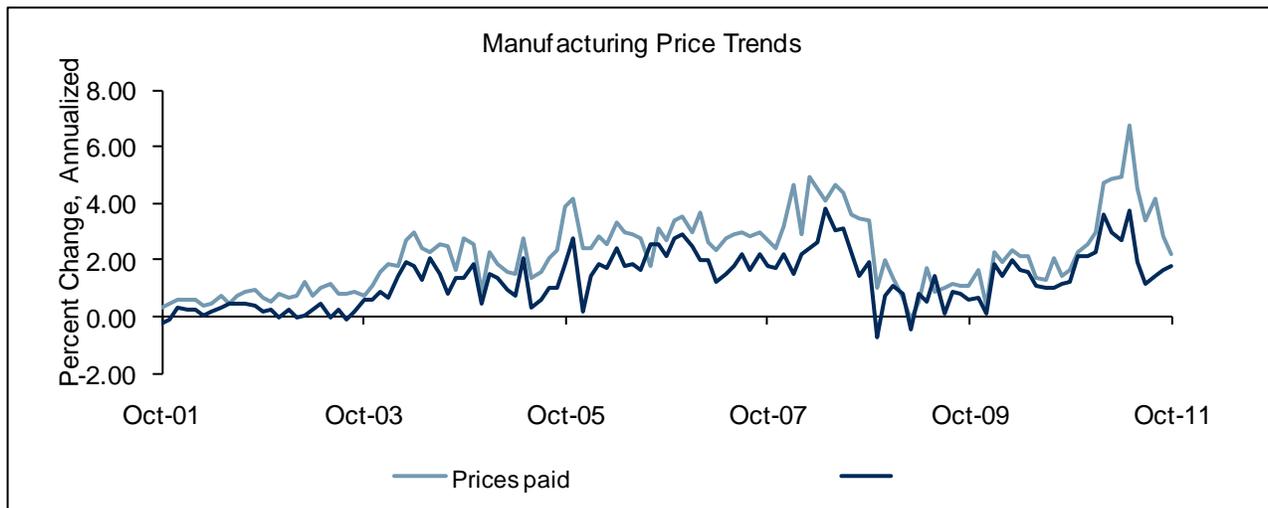
prices grew at a slightly faster pace. Over the next six months, respondents expected growth in both raw materials and finished goods prices to rise more slowly from what they had anticipated last month.

Current Activity

In October, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—was unchanged from September's reading of -6. Among the index's components, shipments lost four points to -6, while new orders gained twelve points to finish at -5 and the jobs index turned negative, moving down fourteen points to -7.

Most other indicators also suggested continued weakness. The index for backlogs of orders rose eight points to finish at -15, and the capacity utilization indicator picked up seven points to -4. Additionally, the delivery times index turned positive, adding four points to end at 2, while our gauges for inventories were mixed in October. The finished goods inventories index was virtually unchanged at 23, while the raw materials inventory index gained seven points to end at 25.





Employment

Labor market conditions weakened at District plants in October. The manufacturing employment index moved down 14 points to -7—the first negative reading for employment since September 2010. The average workweek index, however, gained six points to -1, while wage growth was virtually unchanged, easing one point to finish at 5.

Expectations

In our October survey, our contacts were generally confident about their business prospects for the next six months. The index of expected shipments remained at a high level, increasing only one point, while expected orders remained strong, slipping only two points to finish at 25. Backlogs fell three points to end at 9 and the capacity utilization index rose one point to 21. Moreover, the vendor lead time indicator lost one point to 10, while readings for planned capital expenditures gained eight points to finish at 13.

District manufacturers' hiring plans were mixed in October. The expected manufacturing employment index gained ten points to 13, while the average workweek indicator lost seven points to finish at 3. In addition, the index of expected wages moved down five points to 19.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 2.20 percent in October compared with September's reading of 2.80 percent. Finished goods prices rose at a 1.75 percent pace compared with September's reading of 1.61 percent.

Looking forward, respondents expected that the prices they pay will advance at a 3.41 percent pace, down noticeably from September's reading of 4.45 percent. Additionally, contacts looked for finished goods prices to increase at a 1.46 percent annual rate, somewhat below last month's expected rate of 2.39 percent.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Oct-11	Sep-11	Aug-11	Oct-11	Sep-11	Aug-11
Fifth District Manufacturing Index ³	-6	-6	-10	--	--	--
Company Conditions						
Shipments	-6	-2	-17	28	27	17
Volume of New Orders	-5	-17	-11	25	27	17
Backlog of Orders	-15	-23	-25	9	12	4
Capacity Utilization	-4	-11	-14	21	20	15
Vendor Lead-time	2	-2	-4	10	11	3
Number of Employees	-7	7	1	13	3	5
Average Workweek	-1	-7	-5	3	10	12
Wages	5	6	2	19	24	20
Capital Expenditures	--	--	--	13	5	10
Inventory Levels						
Finished Goods Inventories	23	22	17	--	--	--
Raw Materials Inventories	25	18	19	--	--	--
Price Trends ⁴						
Prices Paid	2.20	2.80	4.16	3.41	4.45	4.54
Prices Received	1.75	1.61	1.46	1.46	2.39	3.35

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 136 of 376 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 a percent change, annualized.