

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Steadied in November; Expectations Were Upbeat*

### Overview

Manufacturing activity in the central Atlantic region stabilized in November following four months of contraction, according to the Richmond Fed's latest survey. The index of overall activity steadied as a slightly positive reading for shipments offset a slight decrease in new orders and a flat reading in employment. Modest improvement was also evident in most other indicators. District contacts reported continuing moderate weakness in backlogs, but noted that capacity utilization edged lower. Delivery times grew at a somewhat quicker pace, while inventories grew at a slightly slower rate.

Looking forward, manufacturers were generally more optimistic about their business prospects for the next six months. Contacts at more firms anticipated that shipments, new orders, backlogs, capacity utilization and capital expenditures would grow more quickly during the next six months.

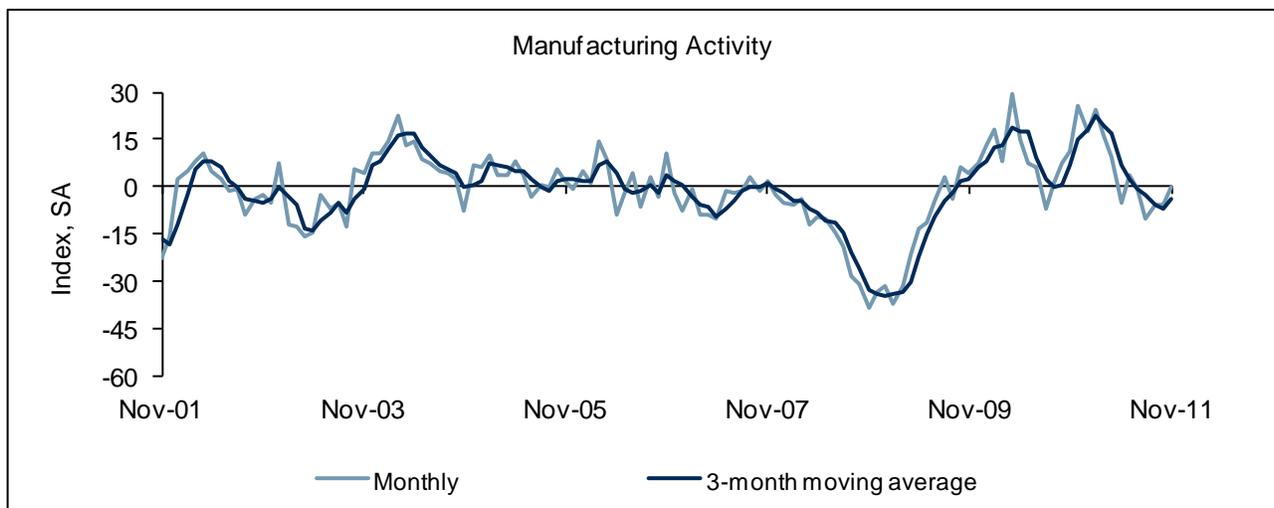
Survey assessments of current prices revealed that both raw materials and finished goods prices grew at a somewhat faster rate in November than a month ago. Over the next six months,

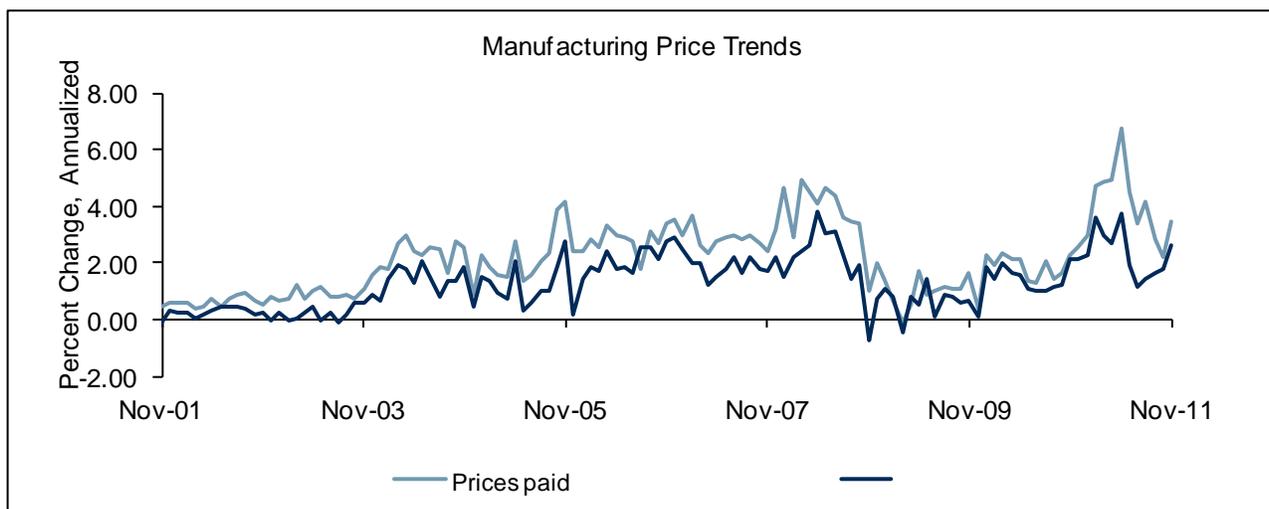
respondents expected growth in raw materials prices to rise more slowly from what they had anticipated last month, while they expected price growth in finished goods to hold steady.

### Current Activity

In November, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—increased six points to 0 from October's reading of -6. Among the index's components, shipments gained seven points to 1, while new orders edged up three points to finish at -2 and the jobs index steadied, moving up seven points to 0.

Most other indicators also suggested modest improvement. The index for backlogs of orders rose five points to finish at -10, while the capacity utilization indicator edged down two points to -6. Additionally, the delivery times index increased three points to end at 5, while our gauges for inventories were slightly lower in November. The finished goods inventories index fell five points to 18 and the raw materials inventory index lost ten points to end at 15.





### Employment

Labor market conditions changed little at District plants in November. Both the manufacturing employment and average workweek indexes registered a reading of 0, moving up seven points and one point, respectively. Wage growth doubled, picking up five points to finish at 10.

### Expectations

In our November survey, our contacts were more bullish about their business prospects for the next six months. The index of expected shipments increased eight points to 36, and expected orders jumped twelve points to finish at 37. Backlogs moved up eight points to end at 17 and the capacity utilization index rose nine points to 30. Moreover, the vendor lead time indicator lost four points to 6, while readings for planned capital expenditures added two points to finish at 15.

District manufacturers' hiring plans were more upbeat in November. The expected manufacturing employment index gained nine points to 22, while the average workweek indicator held constant at 3. In addition, the index of expected wages moved up nine points to 28.

### Prices

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

3.42 percent in November, up somewhat compared with October's reading of 2.20 percent. Finished goods prices rose at a 2.64 percent pace, also slightly above October's reading of 1.75 percent.

Looking ahead, respondents expected that the prices they pay will advance at a 2.79 percent pace, down somewhat from October's reading of 3.41 percent. Additionally, contacts looked for finished goods prices to increase at a 1.46 percent annual rate, on par with last month's pace.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Nov-11	Oct-11	Sep-11	Nov-11	Oct-11	Sep-11
Fifth District Manufacturing Index <sup>3</sup>	0	-6	-6	--	--	--
<b>Company Conditions</b>						
Shipments	1	-6	-2	36	28	27
Volume of New Orders	-2	-5	-17	37	25	27
Backlog of Orders	-10	-15	-23	17	9	12
Capacity Utilization	-6	-4	-11	30	21	20
Vendor Lead-time	5	2	-2	6	10	11
Number of Employees	0	-7	7	22	13	3
Average Workweek	0	-1	-7	3	3	10
Wages	10	5	6	28	19	24
Capital Expenditures	--	--	--	15	13	5
<b>Inventory Levels</b>						
Finished Goods Inventories	18	23	22	--	--	--
Raw Materials Inventories	15	25	18	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	3.42	2.20	2.80	2.79	3.41	4.45
Prices Received	2.64	1.75	1.61	1.46	1.46	2.39

### Technical Notes:

- <sup>1</sup> 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 122 of 376 firms surveyed.
- <sup>2</sup> Expectations refer to the time period six months out from the survey period.
- <sup>3</sup> 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.
- <sup>4</sup> Price changes are expressed a percent change, annualized.