

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Ticked Up In December; Price Growth Slowed

Overview

Manufacturing activity in the central Atlantic region firmed somewhat after stabilizing in November, according to the Richmond Fed's latest survey. The index of overall activity edged higher as positive readings for shipments and new orders offset a slight decline in the reading for employment. Modest improvement was also evident in most other indicators. District contacts reported that backlogs turned positive and noted that capacity utilization steadied. Delivery times were virtually unchanged, while finished goods inventories grew at a slightly faster rate.

Looking ahead, assessments of business prospects for the next six months were less optimistic in December. Contacts at more firms anticipated that shipments, new orders, backlogs, capacity utilization and capital expenditures would grow more slowly during the next six months.

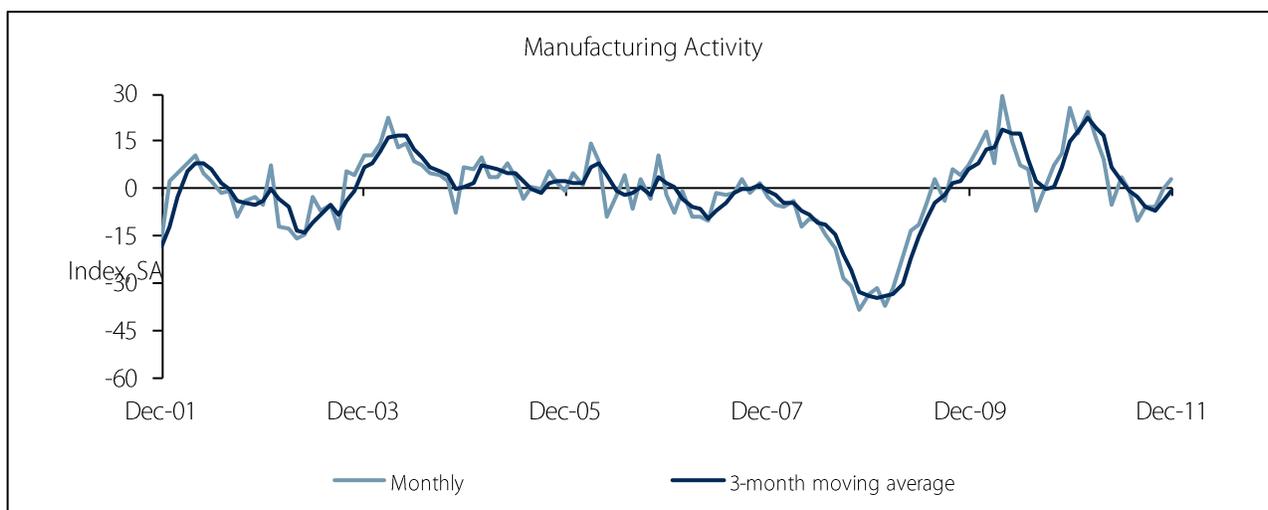
Survey assessments of current prices revealed that both raw materials and finished goods prices grew at a slower rate in December than a month ago. Over the next six months, respondents

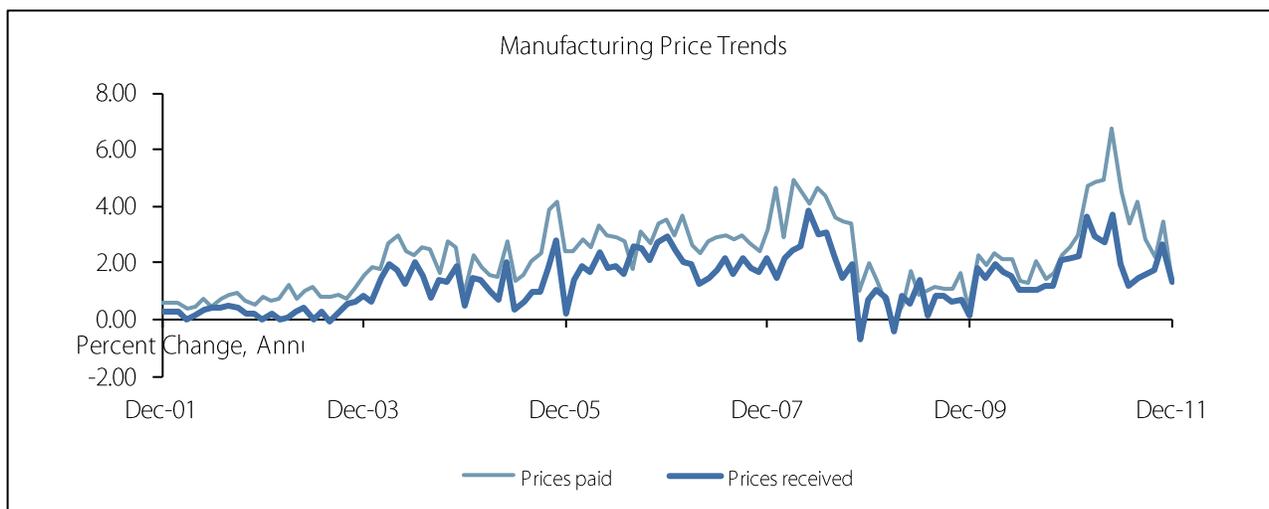
expected growth in raw materials prices to rise at about the same pace as they had anticipated last month, while they expected price growth in finished goods to grow at a quicker rate.

Current Activity

In December, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—increased three points to 3 from November's reading of 0. Among the index's components, shipments gained two points to 3, and new orders picked up nine points to finish at 7, while the jobs index inched down four points to -4.

Most other indicators also suggested modest improvement. The index for backlogs of orders turned positive, picking up eleven points to finish at 1, and the capacity utilization indicator advanced six points to 0. Additionally, the delivery times index was almost unchanged at 4, while our gauges for inventories were mixed in December. The finished goods inventories index added five points to 23, while the raw materials inventory index lost two points to end at 13.





Employment

Labor market conditions at District plants were mixed in December. The manufacturing employment index moved down four points to end at -4, while the average workweek indicator gained three points to 3. Wage growth was in line with last month, matching November's reading of 10.

Expectations

In our December survey, our contacts remained generally upbeat about their business prospects for the coming six months, though somewhat less so than last month. The index of expected shipments declined nine points to 27, and expected orders dropped sixteen points to finish at 21. The backlogs and capacity utilization indexes each fell eleven points to end at 6 and 19, respectively. Moreover, the vendor lead time indicator lost four points to 2, while readings for planned capital expenditures moved down eight points to finish at 7.

District manufacturers' hiring plans in December were somewhat less optimistic as well. The expected manufacturing employment index lost five points to 17, while the average workweek indicator picked up four points to end at 7. Moreover, the index of expected wages moved down ten points to 18.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.55 percent in December, down notably from November's reading of 3.42 percent. Finished goods prices rose at a 1.34 percent pace, also considerably below November's reading of 2.64 percent.

Looking ahead, respondents expected that the prices they pay will advance at a 2.70 percent pace, slightly below November's reading of 2.79 percent. Contacts looked for finished goods prices to increase at a 2.23 percent annual rate, somewhat above last month's 1.46 percent pace.

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Business Activity Indexes¹

| General Business Assessment | Current Conditions | | | Expectations ² | | |
|---|--------------------|--------|--------|---------------------------|--------|--------|
| | Dec-11 | Nov-11 | Oct-11 | Dec-11 | Nov-11 | Oct-11 |
| Fifth District Manufacturing Index ³ | 3 | 0 | -6 | -- | -- | -- |
| Company Conditions | | | | | | |
| Shipments | 3 | 1 | -6 | 27 | 36 | 28 |
| Volume of New Orders | 7 | -2 | -5 | 21 | 37 | 25 |
| Backlog of Orders | 1 | -10 | -15 | 6 | 17 | 9 |
| Capacity Utilization | 0 | -6 | -4 | 19 | 30 | 21 |
| Vendor Lead-time | 4 | 5 | 2 | 2 | 6 | 10 |
| Number of Employees | -4 | 0 | -7 | 17 | 22 | 13 |
| Average Workweek | 3 | 0 | -1 | 7 | 3 | 3 |
| Wages | 10 | 10 | 5 | 18 | 28 | 19 |
| Capital Expenditures | -- | -- | -- | 7 | 15 | 13 |
| Inventory Levels | | | | | | |
| Finished Goods Inventories | 23 | 18 | 23 | -- | -- | -- |
| Raw Materials Inventories | 13 | 15 | 25 | -- | -- | -- |
| Price Trends⁴ | | | | | | |
| Prices Paid | 1.55 ⁵ | 3.42 | 2.20 | 2.70 | 2.79 | 3.41 |
| Prices Received | 1.34 ⁵ | 2.64 | 1.75 | 2.23 | 1.46 | 1.46 |

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 116 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 as a percent change, annualized.
- ⁵ Numbers revised 1/17/12.