

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Growth Slowed in May; Expectations Remained Upbeat

Overview

Manufacturing activity in the central Atlantic region expanded in May for the sixth consecutive month but at a more moderate pace than a month ago, according to the Richmond Fed's latest survey. Looking at the main components of activity, shipments held steady and employment grew at a faster rate, while new orders grew at a rate well below April's pace. Most other indicators also suggested a slowdown in growth. District contacts reported that backlogs turned negative and capacity utilization grew more slowly. Vendor lead-time grew at a slower rate, while raw materials inventories grew at a quicker pace.

In spite of the recent moderation in activity, assessments for business activity over the next six months remained generally positive since our last report. Contacts at more firms anticipated that shipments, new orders, backlogs, capacity utilization, and capital expenditures would continue to grow at a solid pace.

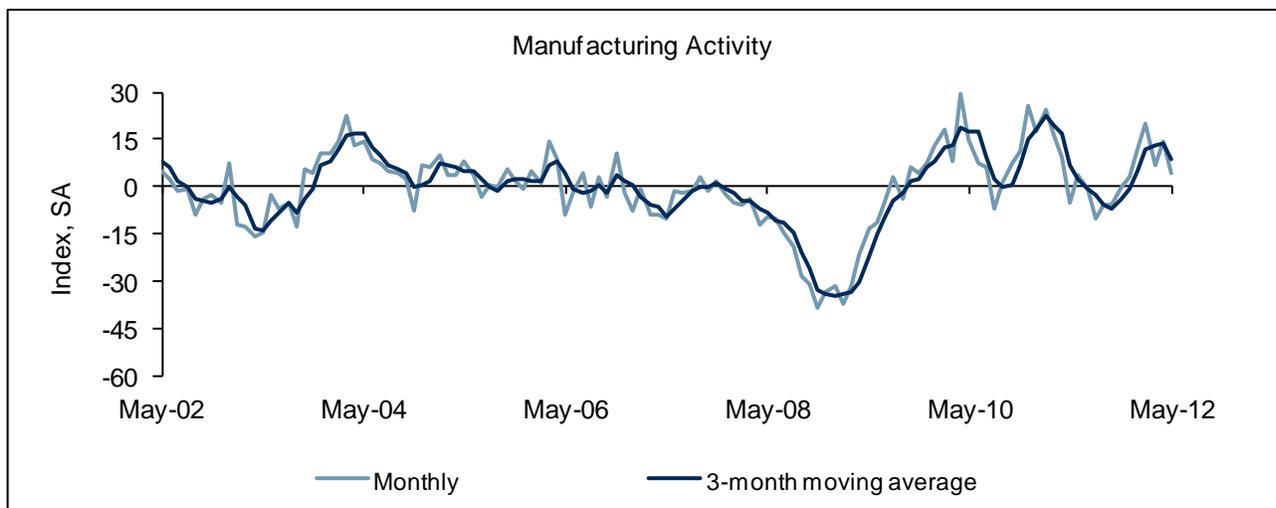
Survey assessments of current prices revealed that both raw materials and finished goods prices

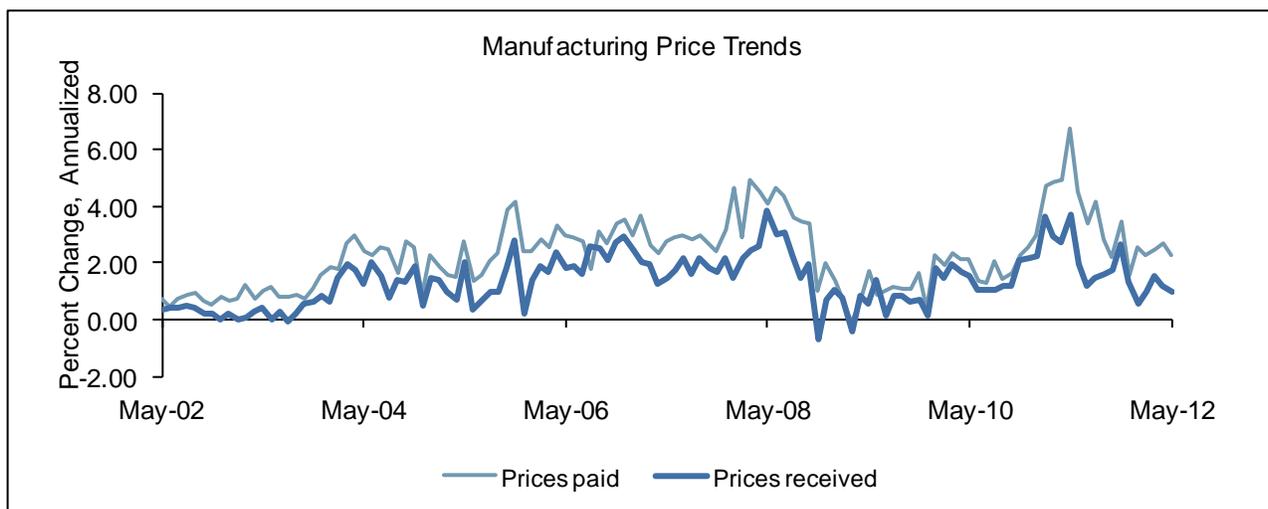
grew at a somewhat slower rate in May than a month ago. Over the next six months, respondents expected growth in both raw materials and finished goods prices to rise at a somewhat slower pace than they had anticipated last month.

Current Activity

In May, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—fell ten points to 4 from April's reading of 14. Among the index's components, shipments declined eighteen points to 0 and new orders dropped twelve points to end at 1, while the jobs index moved up six points to 16.

Most other indicators also suggested weaker activity. The capacity utilization indicator lost thirteen points to finish at 2, while the backlogs index moved down twenty points to -18. Additionally, the delivery times index lost four points to 4, while our gauges for inventories were mixed in May. Indexes for finished goods inventories held steady at 7, while raw materials inventories added four points to finish at 21.





Employment

Hiring activity strengthened further at District plants in May. The manufacturing employment index moved up six points to end at 16 and the average workweek indicator advanced eight points to 11. The wage index, however, subtracted eight points to 6.

Expectations

In our May survey, our contacts remained generally confident about their business prospects for the next six months. The index of expected shipments moved up two points to 30 and expected orders added one point to finish at 30. Backlogs eased one point to 13 and capacity utilization declined five points to 16. Vendor lead-time gave up seven points to 0 and readings for planned capital expenditures lost three points to finish at 17.

District manufacturers' hiring plans were little changed in May. The expected manufacturing employment index slipped three points to 15, while the average workweek indicator held steady at 7. The index of expected wages edged up two points to 25.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 2.30 percent in May compared to April's reading of

2.71 percent. Finished goods prices rose at a 0.98 percent pace, somewhat lower compared to April's reading of 1.19 percent.

Looking ahead, respondents expected that the prices they pay will advance at a 2.46 percent pace compared to April's reading of 2.55 percent. Contacts looked for finished goods prices to increase at a 1.08 percent annual rate, down slightly from last month's 1.95 percent pace.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	May-12	Apr-12	Mar-12	May-12	Apr-12	Mar-12
Fifth District Manufacturing Index ³	4	14	7	--	--	--
Company Conditions						
Shipments	0	18	2	30	28	26
Volume of New Orders	1	13	11	30	29	32
Backlog of Orders	-18	2	4	13	14	11
Capacity Utilization	2	15	6	16	21	24
Vendor Lead-time	4	8	11	0	7	10
Number of Employees	16	10	6	15	18	10
Average Workweek	11	3	2	7	7	9
Wages	6	14	11	25	23	24
Capital Expenditures	--	--	--	17	20	22
Inventory Levels						
Finished Goods Inventories	7	7	4	--	--	--
Raw Materials Inventories	21	17	14	--	--	--
Price Trends⁴						
Prices Paid	2.30	2.71	2.50	2.46	2.55	2.80
Prices Received	0.98	1.19	1.50	1.08	1.95	1.60

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 141 of 315 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.