

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Eased in June, But Expectations Remained Upbeat

Overview

Manufacturing activity in the central Atlantic region softened in June, following six months of moderate expansion, according to the Richmond Fed's latest survey. Looking at the main components of activity, shipments edged into negative territory as growth in new orders experienced notable declines and employment grew at a rate well below May's pace. Most other indicators also suggested weakening activity. District contacts reported that capacity utilization and vendor lead-time turned negative, while growth in order backlogs exhibited marked weakness. Manufacturers reported that finished goods inventories grew at a much quicker pace, while raw materials were nearly unchanged.

Despite the moderation in recent activity, assessments of business prospects for the next six months were in line with last month's readings. Contacts at more firms anticipated that shipments, new orders, backlogs, capacity utilization and capital expenditures would grow at a solid pace.

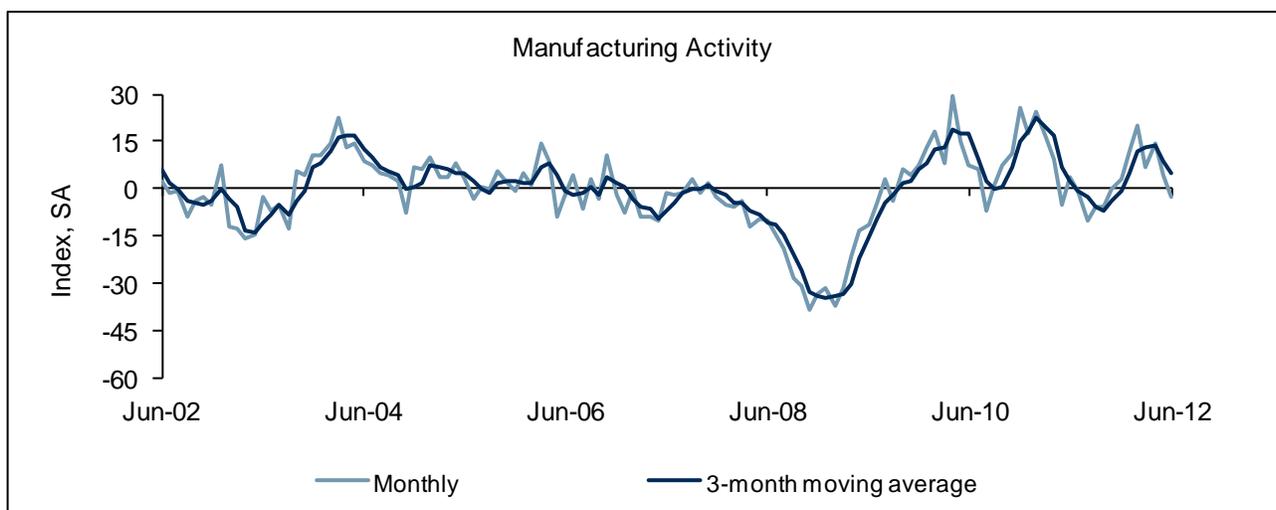
Survey assessments of current prices revealed that both raw materials and finished goods prices

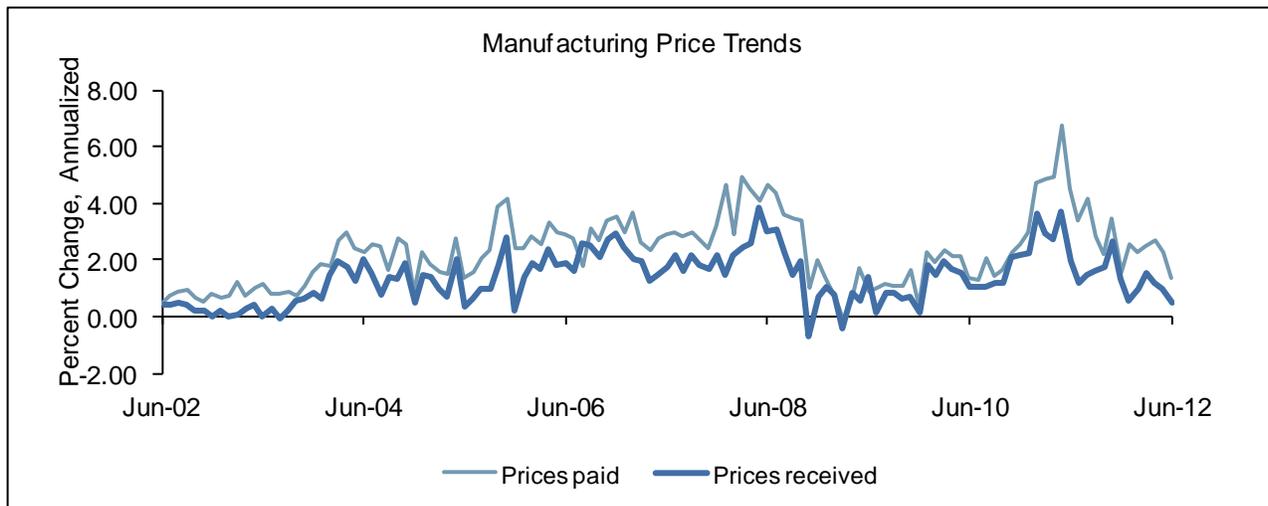
grew at a somewhat slower rate in June than a month ago. Over the next six months, respondents expected growth in raw materials prices to grow at a somewhat slower pace, while they expected price growth in finished goods to rise at a somewhat faster rate than they had anticipated last month.

Current Activity

In June, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—lost seven points to -3 from May's reading of 4. Among the index's components, shipments declined two points to -2, new orders dropped thirteen points to end at -12, and the jobs index moved down eight points to 8.

Most other indicators also suggested some weakening in activity. The capacity utilization and delivery times indicators both turned negative, losing ten points and seven points, respectively, finishing at -8, and -3. The backlogs index edged up two points to -16, while our gauges for inventories were somewhat higher in June. Indexes for finished goods inventories added





seven points to end at 14, while raw materials inventories edged up one point to finish at 22.

Employment

Labor market conditions softened somewhat in June. The manufacturing employment index moved down eight points to end at 8, and the average workweek indicator turned negative, losing thirteen points to finish at -2. The wage index, however, advanced two points to 8.

Expectations

In our June survey, our contacts were generally more optimistic about their business prospects for the next six months. The index of expected shipments moved up three points to 33, while expected orders held steady at 30. Backlogs increased three points to 16, and capacity utilization rose five points to 21. Vendor lead-time jumped ten points to 10 and readings for planned capital expenditures gained three points to 20.

District manufacturers' hiring plans were little changed in June. The expected manufacturing employment index was virtually unchanged at 14, while the average workweek indicator added three points to 10. The index of expected wages eased one point to 24.

Prices

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

1.38 percent, somewhat lower compared to May's reading of 2.30 percent. Finished goods prices rose at a 0.48 percent pace, down slightly from May's reading of 0.98 percent.

Looking ahead, respondents expected that the prices they pay will advance at a 1.80 percent pace compared to May's reading of 2.46 percent. Contacts looked for finished goods prices to increase at a 2.08 percent annual rate, up slightly from last month's 1.08 percent pace.

Contact

Judy Cox
 Senior Economic Analyst
 Research Dept. /Regional Economics
 Federal Reserve Bank of Richmond
 Richmond Office

Ph: 804.697.8152 • Fax: 804.697.8123
judy.cox@rich.frb.org
www.richmondfed.org

Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Jun-12	May-12	Apr-12	Jun-12	May-12	Apr-12
Fifth District Manufacturing Index ³	-3	4	14	--	--	--
Company Conditions						
Shipments	-2	0	18	33	30	28
Volume of New Orders	-12	1	13	30	30	29
Backlog of Orders	-16	-18	2	16	13	14
Capacity Utilization	-8	2	15	21	16	21
Vendor Lead-time	-3	4	8	10	0	7
Number of Employees	8	16	10	14	15	18
Average Workweek	-2	11	3	10	7	7
Wages	8	6	14	24	25	23
Capital Expenditures	--	--	--	20	17	20
Inventory Levels						
Finished Goods Inventories	14	7	7	--	--	--
Raw Materials Inventories	22	21	17	--	--	--
Price Trends⁴						
Prices Paid	1.38	2.30	2.71	1.80	2.46	2.55
Prices Received	0.48	0.98	1.19	2.08	1.08	1.95

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 131 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.