Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Contracted in July; Manufacturers' Optimism Waned

Overview

The pullback in manufacturing activity in the central Atlantic region deepened in July, after edging lower in June, according to the Richmond Fed's latest seasonally adjusted survey.* The index of overall activity was pushed lower as shipments and new orders declined further into negative territory. Employment remained in positive territory, but grew at a pace below June's rate. Other indicators also suggested additional softness. District contacts reported that backlogs, capacity utilization and delivery times continued to contract. Moreover, manufacturers reported that finished goods inventories grew at a much quicker pace, while raw materials were nearly unchanged.

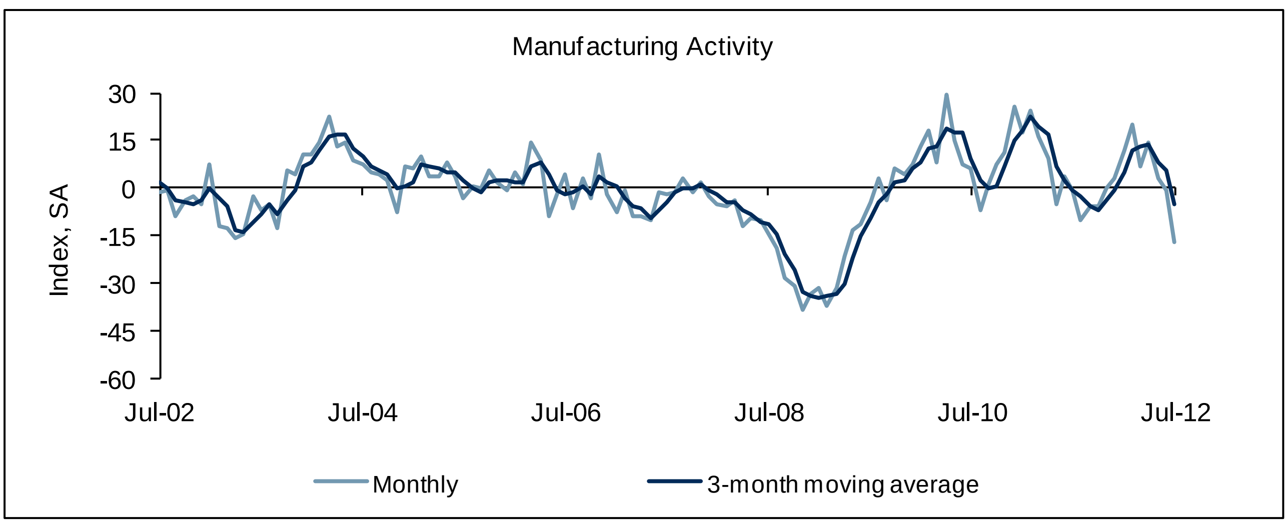
Looking ahead, manufacturer's optimism regarding future business prospects dropped considerably in July. An increasing number of firms anticipated slower growth across the board with the exception of capital expenditures, which grew at a pace slightly above June's rate.

Survey assessments of current prices revealed that both raw materials and finished goods prices grew at a somewhat slower rate in July than a month ago. Over the next six months, respondents expected growth in both raw materials and finished goods prices to grow at a somewhat slower pace than they had anticipated last month.

Current Activity

In July, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—fell sixteen points to -17 from June's reading of -1. Among the index's components, shipments declined twenty-three points to -23, new orders dropped eighteen points to end at -25, and the jobs index moved down seven points to 1.

Other indicators also suggested weakening activity. The backlogs and capacity utilization indexes weakened further—losing thirteen and twelve points, respectively—finishing at -27, and -16. Additionally, the delivery times index moved down three points to -5, while both our gauges for inventories were somewhat higher in July. Indexes for finished goods inventories added twelve points to end at 21, while raw materials inventories edged up two points to finish at 23.



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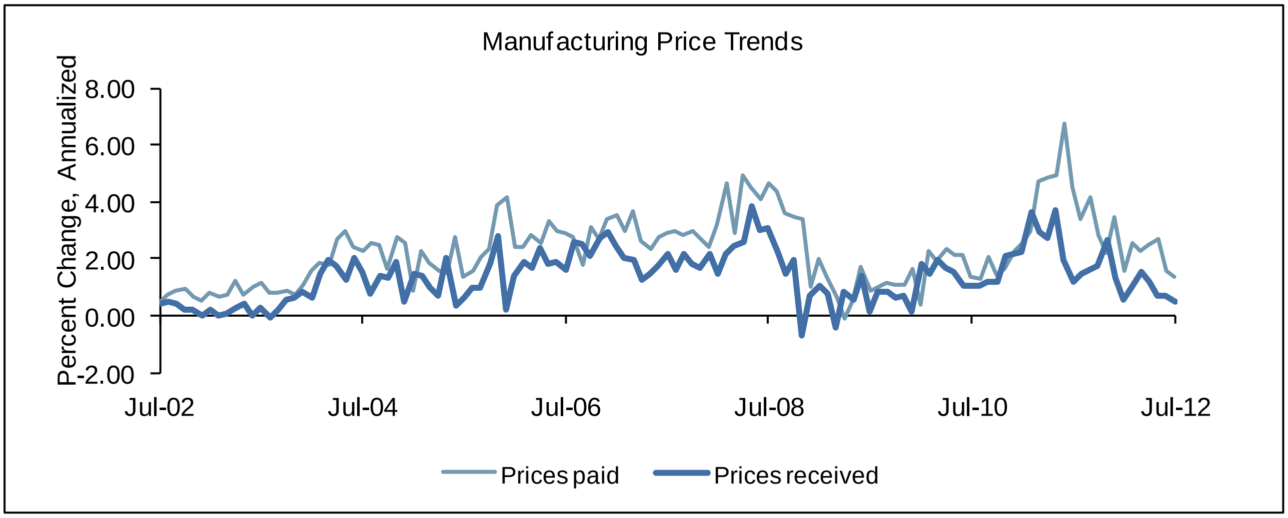

Employment

Hiring activity at District plants slowed in July. The manufacturing employment index subtracted seven points to end at 1, and the average workweek indicator turned negative, losing seven points to -7. The wage index, however, was virtually unchanged at 9.

Expectations

Respondents in the current survey were notably less optimistic about their business prospects over the next six months. Nearly all indicators for future activity fell but remained in positive territory. Indexes for both expected shipments and new orders decreased thirteen points with each index finishing at 16. Backlogs declined fifteen points to 0, and capacity utilization eased one point to 6. Vendor lead-time lost five points to 3, while readings for planned capital expenditures gained two points to 20.

District manufacturers' hiring plans were also weaker in July. The expected manufacturing employment index declined seven points to finish at 6, and the average workweek indicator dropped five points to 2. The index of expected wages slipped three points to 20.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.33 percent, compared to June's reading of 1.39 percent. Finished goods prices rose at a 0.51 percent pace, compared to June's reading of 0.66 percent.

Looking ahead, respondents expected that the prices they pay will advance at a 2.42 percent pace compared to June's reading of 2.53 percent. Contacts looked for finished goods prices to increase at a 1.82 percent annual rate, down slightly from last month's 2.23 percent pace.

**Seasonal adjustment factors were recalculated this month and applied to historical data to better reflect current economic trends. Comparisons to last month's indexes are made to the revised June indexes. New factors will be calculated annually.*

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Business Activity Indexes[1,5]

General Business Assessment	Current Conditions			Expectations[2]		
	Jul-12	Jun-12	May-12	Jul-12	Jun-12	May-12
Fifth District Manufacturing Index[3]	-17	-1	3	--	--	--
Company Conditions						
Shipments	-23	0	2	16	29	27
Volume of New Orders	-25	-7	-1	16	29	30
Backlog of Orders	-27	-14	-9	0	15	15
Capacity Utilization	-16	-4	2	6	7	20
Vendor Lead-time	-5	-2	3	3	8	5
Number of Employees	1	8	12	6	13	14
Average Workweek	-7	0	7	2	7	6
Wages	9	10	7	20	23	23
Capital Expenditures	--	--	--	20	18	14
Inventory Levels						
Finished Goods Inventories	21	9	8	--	--	--
Raw Materials Inventories	23	21	20	--	--	--
Price Trends[4]						
Prices Paid	1.33	1.39	1.59	2.42	2.53	2.49
Prices Received	0.51	0.66	0.69	1.82	2.23	1.35

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 117 of 301 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.

5 These data include recalculation of seasonal adjustment factors and revised history to better reflect current economic trends.