

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Contracted at a Slightly Slower Pace in August; Hiring Turned Negative

Overview

Manufacturing activity in the central Atlantic region contracted at a less pronounced rate this month, after deteriorating in July, according to the Richmond Fed's latest seasonally adjusted survey. Looking at the main components of activity, shipments edged higher, employment turned negative, and the weakness in new orders moderated somewhat. Evidence of diminished weakness was also reflected in most other indicators. District contacts reported that backlogs, capacity utilization, and delivery times remained negative but improved from July readings. Moreover, finished goods inventories grew at a slightly slower pace, while growth in raw materials was nearly unchanged.

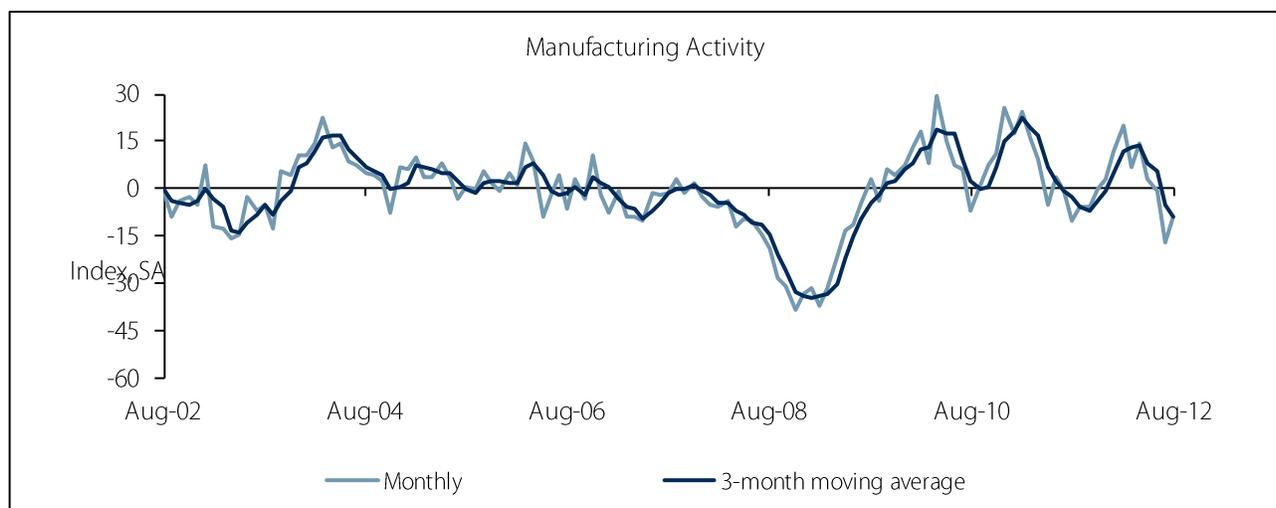
Looking forward, assessments of business prospects for the next six months were generally in line with last month's readings. Contacts at more firms anticipated steady growth in shipments, new orders, and backlogs in the months ahead, while they expected capacity utilization to grow more quickly.

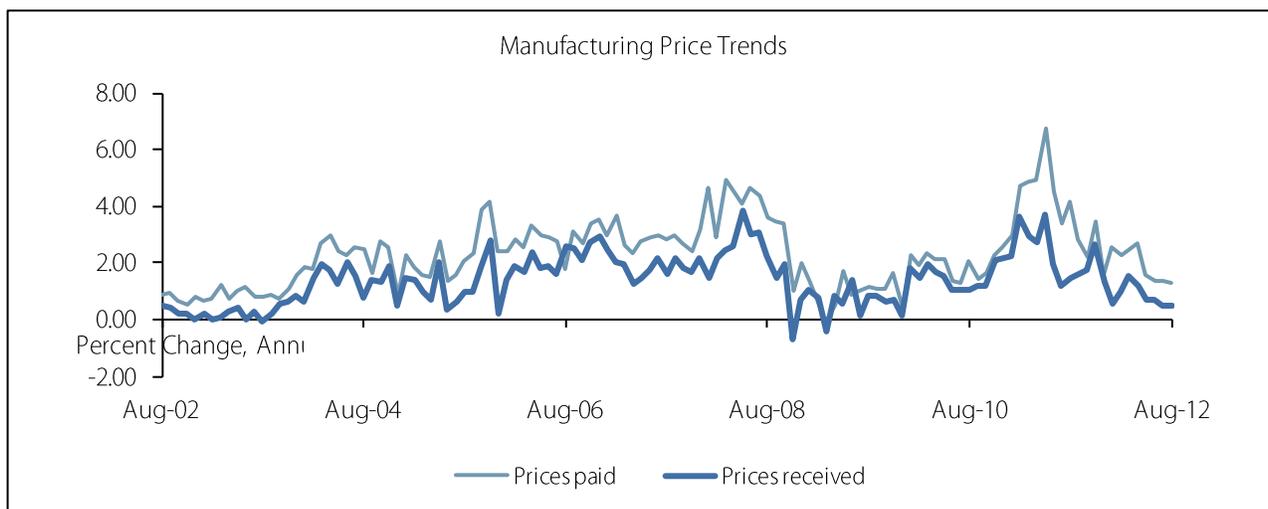
Survey assessments of current prices revealed that growth in both raw materials and finished goods grew on par with July. Over the next six months, respondents expected growth in both raw materials and finished goods prices to grow at a somewhat quicker pace than they had anticipated last month.

Current Activity

In August, the seasonally adjusted composite index of manufacturing activity – our broadest measure of manufacturing – gained eight points to -9 from July's reading of -17. Among the index's components, shipments increased twenty-four points to 1, new orders picked up five points to end at -20, and the jobs index moved down six points to -5.

Most other indicators also suggested some easing in the pace of recent weakness. The index for capacity utilization picked up seven points to -9, and the backlogs of orders edged up two points to -25. Additionally, the delivery times index added one point to -4, while our gauges for inventories were mixed in August. The raw materials inventory





index was virtually unchanged at 24, while the finished goods inventory index fell three points to end at 18.

Employment

Weak labor markets persisted in August. The manufacturing employment index subtracted six points to end at -5 and the average workweek indicator declined further, losing four points to -11. Moreover, the wage index fell six points to 3.

Expectations

Respondents in the current survey were somewhat more optimistic about their business prospects than reported a month ago. Indexes for both expected shipments and new orders increased one point, with each index finishing at 17. Backlogs moved up six points to 6 and capacity utilization jumped fifteen points to 21. Vendor lead-time edged up two points to 5, while readings for planned capital expenditures lost ten points to 10.

District manufacturers' hiring plans advanced somewhat in August. The expected manufacturing employment index added two points to finish at 8 and the average workweek indicator picked up eight points to 10. The index of expected wages held steady at 20.

Prices

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

1.32 percent, almost unchanged from July's reading of 1.33 percent. Finished goods prices rose at a 0.51 percent pace, matching July's reading of 0.51 percent.

Looking forward, respondents expected that the prices they pay will advance at a 2.78 percent pace compared to July's reading of 2.42 percent. Contacts looked for finished goods prices to increase at a 2.04 percent annual rate, up slightly from last month's 1.82 percent pace.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Aug-12	Jul-12	Jun-12	Aug-12	Jul-12	Jun-12
Fifth District Manufacturing Index ³	-9	-17	-1	--	--	--
Company Conditions						
Shipments	1	-23	0	17	16	29
Volume of New Orders	-20	-25	-7	17	16	29
Backlog of Orders	-25	-27	-14	6	0	15
Capacity Utilization	-9	-16	-4	21	6	7
Vendor Lead-time	-4	-5	-2	5	3	8
Number of Employees	-5	1	8	8	6	13
Average Workweek	-11	-7	0	10	2	7
Wages	3	9	10	20	20	23
Capital Expenditures	--	--	--	10	20	18
Inventory Levels						
Finished Goods Inventories	18	21	9	--	--	--
Raw Materials Inventories	24	23	21	--	--	--
Price Trends⁴						
Prices Paid	1.32	1.33	1.39	2.78	2.42	2.53
Prices Received	0.51	0.51	0.66	2.04	1.82	2.23

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 121 of 301 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.