

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Ticked Up in September; New Orders Turned Positive

Overview

Manufacturing activity in the central Atlantic region firmed somewhat in September, following three months of contraction, according to the Richmond Fed's latest survey. The seasonally adjusted index of overall activity edged higher as positive readings for shipments and new orders offset the negative reading for employment. Modest improvement was also evident in most other indicators. Capacity utilization turned positive, while backlogs and delivery times remained negative but improved from their August readings. Moreover, raw materials inventories grew at a slightly slower pace, while growth in finished goods was unchanged.

Looking ahead, assessments of business prospects for the next six months were more optimistic in September. Contacts at more firms anticipated that shipments, new orders, backlogs, capacity utilization, and vendor lead-times would grow more quickly in the months ahead.

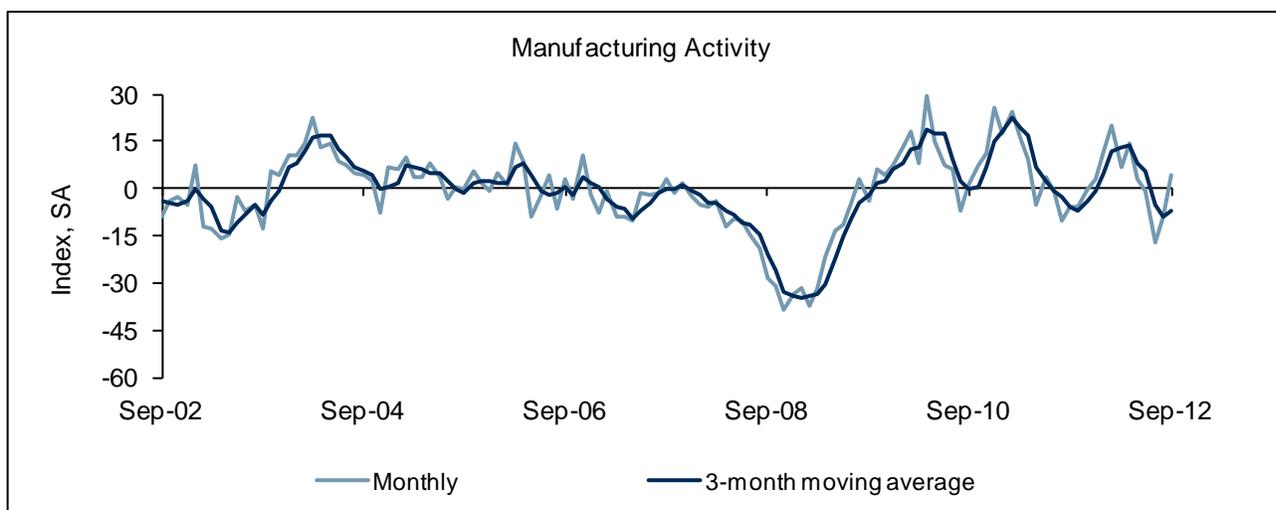
Survey assessments of current prices revealed that growth in raw material prices grew more

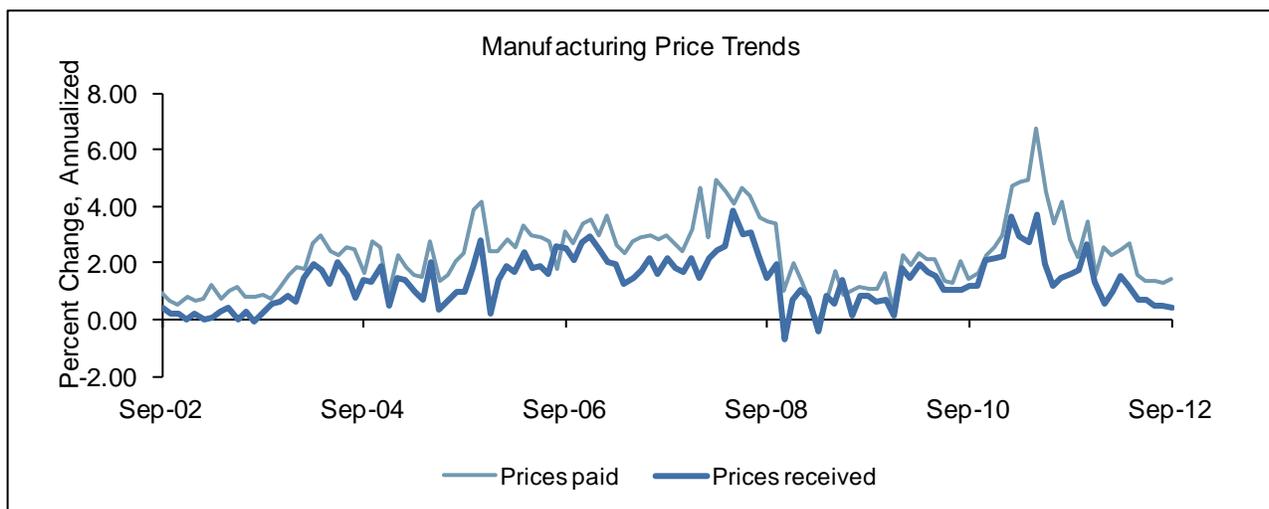
quickly, while finished goods prices grew more slowly. Over the next six months, respondents expected growth in both raw materials and finished goods prices to grow at a much slower pace than they had anticipated a month earlier.

Current Activity

In September, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—gained thirteen points to 4 from August's reading of -9. Among the index's components, shipments rose eight points to 9, new orders picked up twenty-seven points to end at 7, and the jobs index held steady at -5.

Most other indicators also suggested modest improvement. The index for capacity utilization turned positive, picking up twelve points to 3, and the backlogs of orders index increased sixteen points to end at -9. Additionally, the delivery times index added three points to -1, while our gauges for inventories were mixed in September. The raw materials inventory index fell seven points to finish at 17, while the finished goods inventory index was unchanged at 18.





Employment

Labor market activity changed little at Fifth District factories. The manufacturing employment index held steady at -5, while the average workweek indicator gained six points to -5. Moreover, the wage index rose three points to 6.

Expectations

In the current survey, contacts were generally more optimistic about their business prospects than they reported a month ago. The index of expected shipments inched up three points to 20 and the new orders index increased nine points to finish at 26. Backlogs moved up ten points to 16, and capacity utilization edged up two points to 23. Vendor lead-time picked up eight points to 13, while the index for planned capital expenditures lost eight points to 2.

Fifth District manufacturers' hiring plans were mixed in September. The expected manufacturing employment index lost seven points to finish at 1, while the average workweek indicator changed little, adding one point to 11. The index of expected wages rose one point to end at 21.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.42 percent compared with August's reading of 1.32 percent. Finished goods prices rose at a 0.44

percent pace, slightly lower than August's reading of 0.51 percent.

Looking ahead, respondents on average expected that the prices they pay will advance at a 1.33 percent pace, notably below August's reading of 2.78 percent. Contacts looked for finished goods prices to increase at a 0.11 percent annual rate, also markedly below last month's 2.04 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		
	Sep-12	Aug-12	Jul-12	Sep-12	Aug-12	Jul-12
Fifth District Manufacturing Index ³	4	-9	-17	--	--	--
Company Conditions						
Shipments	9	1	-23	20	17	16
Volume of New Orders	7	-20	-25	26	17	16
Backlog of Orders	-9	-25	-27	16	6	0
Capacity Utilization	3	-9	-16	23	21	6
Vendor Lead-time	-1	-4	-5	13	5	3
Number of Employees	-5	-5	1	1	8	6
Average Workweek	-5	-11	-7	11	10	2
Wages	6	3	9	21	20	20
Capital Expenditures	--	--	--	2	10	20
Inventory Levels						
Finished Goods Inventories	18	18	21	--	--	--
Raw Materials Inventories	17	24	23	--	--	--
Price Trends⁴						
Prices Paid	1.42	1.32	1.33	1.33	2.78	2.42
Prices Received	0.44	0.51	0.51	0.11	2.04	1.82

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 290 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.