

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Pulled Back in October; Optimism Wanes*

### Overview

Manufacturing activity in the central Atlantic region pulled back in October after improving somewhat last month, according to the Richmond Fed's latest survey. The seasonally adjusted index of overall activity was pushed lower as all broad indicators of activity—shipments, new orders and employment—were in negative territory. Other indicators also suggested additional softness. Capacity utilization turned negative, while backlogs remained negative but improved from its September reading. Moreover, the gauge for delivery times changed little, while raw materials inventories grew at a slightly quicker pace, and growth in finished goods edged lower.

Looking forward, assessments of business prospects for the next six months were less optimistic in October. Contacts at more firms anticipated that new orders, backlogs, capacity utilization, and vendor lead-times will grow more slowly than anticipated a month ago.

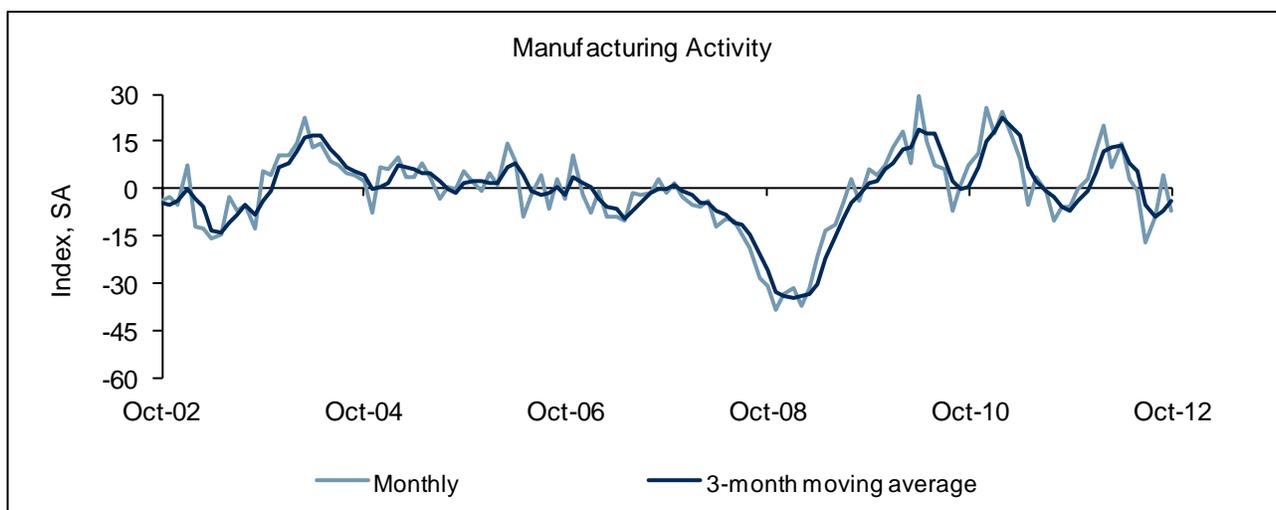
Survey assessments of current prices revealed that growth in both raw materials and finished

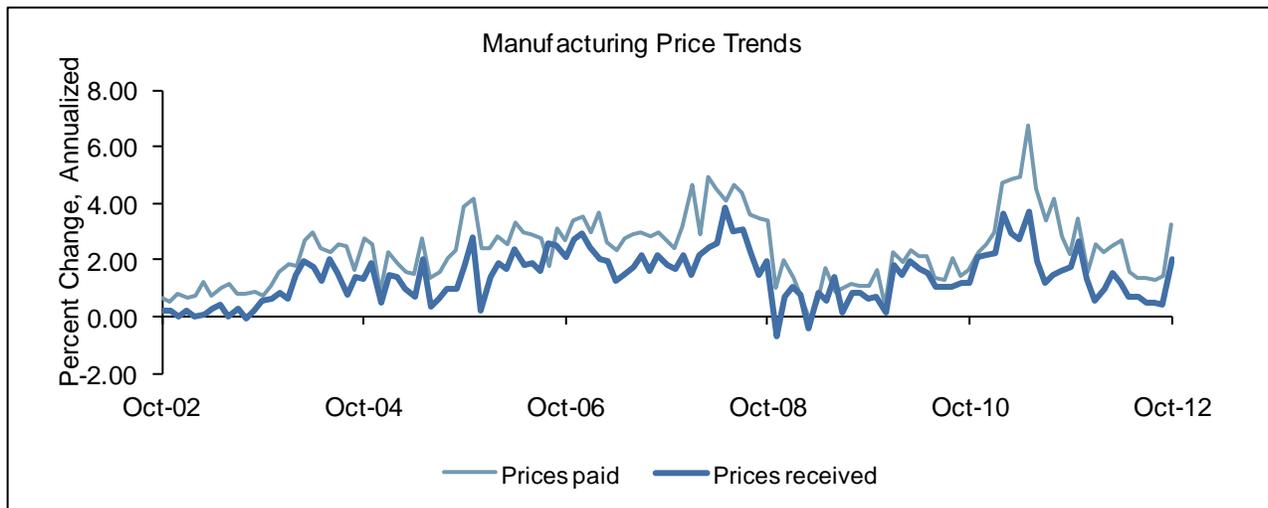
goods prices grew at a somewhat quicker rate than a month ago. Over the next six months, respondents expected growth in both raw materials and finished goods prices to grow at a somewhat faster pace than they had anticipated a month earlier.

### Current Activity

In October, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—lost eleven points to -7 from September's reading of 4. Among the index's components, shipments fell eighteen points to -9, new orders moved down thirteen points to finish at -6, and the jobs index held steady at -5.

Most other indicators also suggested weaker activity. The index for capacity utilization turned negative, losing seven points to -4, and the backlogs of orders gained six points to end at -3. Additionally, the delivery times index subtracted one point to -2, while our gauges for inventories were mixed in October. The raw materials inventory index rose six points to finish at 23, while the finished goods index fell three points to 15.





**Employment**

Labor market activity changed little from the modest contraction a month ago at Fifth District factories. The manufacturing employment index held steady at -5, while the average workweek indicator turned positive, gaining eight points to 3. Moreover, the wage index rose four points to 10.

**Expectations**

In the current survey, contacts were generally less optimistic about their business prospects than reported a month ago. The index of expected shipments was virtually unchanged at 21, while the new orders index declined seven points to finish at 19. Backlogs reversed its ten-point gain realized in September to end at 6, and capacity utilization inched down four points to 19. Vendor lead-time moved down six points to 7, and readings for planned capital expenditures lost two points to 0.

District manufacturers' hiring plans were somewhat more optimistic in October. The expected manufacturing employment index gained seven points to finish at 8, while the average workweek indicator changed little, losing one point to 10. Moreover, the index of expected wages rose four points to end at 25.

**Prices**

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

3.21 percent, notably higher than September's reading of 1.42 percent. Finished goods prices rose at a 1.99 percent pace, also somewhat higher than September's reading of 0.44 percent.

Looking forward, respondents on average expected that the prices they pay will advance at a 2.55 percent pace, markedly above September's reading of 1.33 percent. Contacts looked for finished goods prices to increase at a 1.51 percent annual rate, also slightly above last month's 1.27 percent pace.

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## Business Activity Indexes<sup>1</sup>

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Oct-12	Sep-12	Aug-12	Oct-12	Sep-12	Aug-12
Fifth District Manufacturing Index <sup>3</sup>	-7	4	-9	--	--	--
<b>Company Conditions</b>						
Shipments	-9	9	1	21	20	17
Volume of New Orders	-6	7	-20	19	26	17
Backlog of Orders	-3	-9	-25	6	16	6
Capacity Utilization	-4	3	-9	19	23	21
Vendor Lead-time	-2	-1	-4	7	13	5
Number of Employees	-5	-5	-5	8	1	8
Average Workweek	3	-5	-11	10	11	10
Wages	10	6	3	25	21	20
Capital Expenditures	--	--	--	0	2	10
<b>Inventory Levels</b>						
Finished Goods Inventories	15	18	18	--	--	--
Raw Materials Inventories	23	17	24	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	3.21	1.42	1.32	2.55	1.33	2.78
Prices Received	1.99	0.44	0.51	1.51	1.27 <sup>5</sup>	2.04

### Technical Notes:

- <sup>1</sup> 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 290 firms surveyed.
- <sup>2</sup> Expectations refer to the time period six months out from the survey period.
- <sup>3</sup> 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.
- <sup>4</sup> Price changes are expressed a percent change, annualized.
- <sup>5</sup> Revised to exclude outliers that skewed the index.