

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

### *Manufacturing Activity Contracted in January; Outlook Improved*

#### Overview

Manufacturing activity in the central Atlantic region declined in January following two months of modest expansion, according to the Richmond Fed's latest survey. Nearly all broad indicators of activity fell into negative territory. Other indicators also suggested additional softness. Capacity utilization turned negative as did the gauge for delivery times, while backlogs continued its downward trend. In addition, finished goods inventories grew at a slightly quicker pace.

Looking ahead, assessments of business prospects for the next six months were somewhat more optimistic in January. An increasing number of contacts anticipated faster growth for new orders, capacity utilization, vendor lead-time, average workweek and capital expenditures, pushing up those indicators.

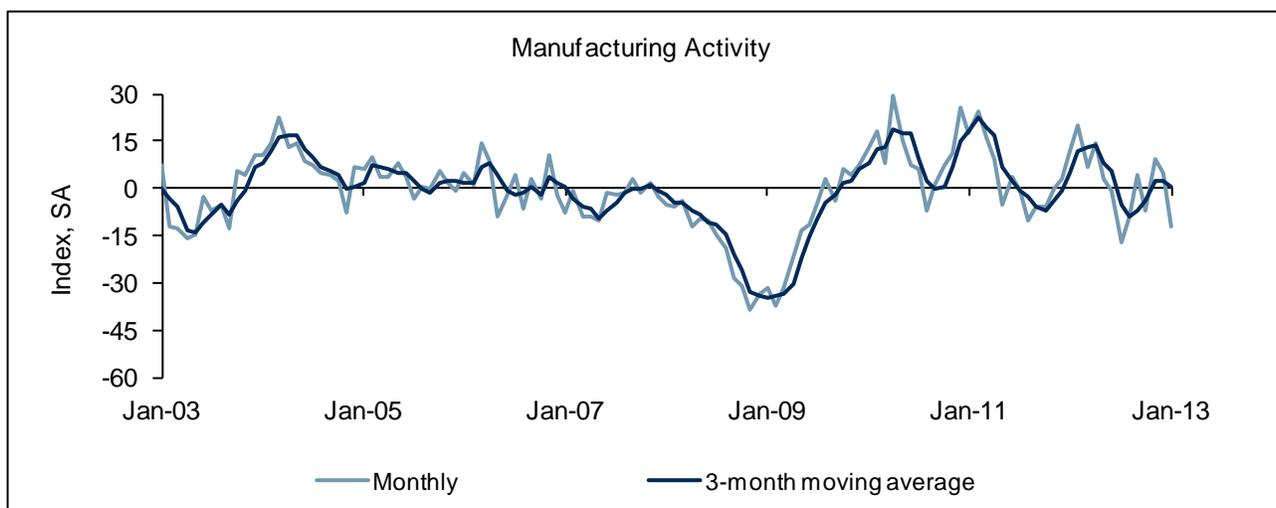
Survey assessments of current prices indicated that raw materials prices grew at a slightly quicker pace than in December, while finished goods prices grew at a slightly slower rate. Over the next six months, respondents expected raw materials

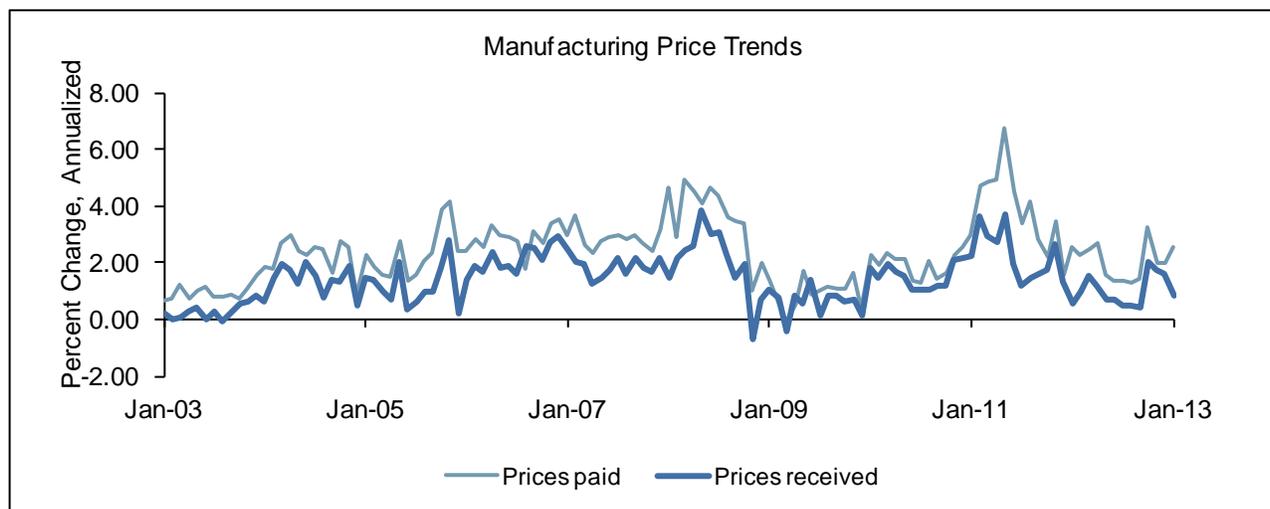
prices to grow at a slightly slower pace compared to their outlook of last month, while they expected finished goods prices to grow at a somewhat quicker rate than they had anticipated a month earlier.

#### Current Activity

In January, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—lost seventeen points to settle at -12 from December's reading of 5. Among the index's components, shipments fell seventeen points to -11, the gauge for new orders moved down twenty-seven points to end at -17, and the jobs index slipped two points to -5.

Other indicators also suggested weakening in January. The index for capacity utilization moved lower, subtracting twenty-one points to -18, and the backlogs of orders lost eight points to end at -19. The delivery times index turned negative, giving up seven points to end at -4. The raw materials inventory index was virtually unchanged at 23, while the finished goods inventories gained nine points to also end at 23.





**Employment**

Hiring activity at Fifth District plants continued to edge lower in January. The manufacturing employment index slipped two points to settle at -5 and the average workweek indicator lost two points to end at -4. However, the wage index added one point to finish at 11.

**Expectations**

In the current survey, contacts were somewhat more optimistic about their future business prospects than they reported a month ago. The index of expected shipments shed just two points, ending at a reading of 18, while the new orders index picked up six points to finish at 18. Backlogs held steady at 0, while the gauge for capacity utilization advanced six points to 10. The indicator for vendor lead-time moved up seven points to 4 and readings for planned capital expenditures added three points to end at 12.

District manufacturers' hiring plans were mixed in January. The index for expected manufacturing employment lost two points to finish at a flat reading of 0, while the average workweek indicator gained six points to 1. The index for expected wages eased one point to end at 20.

**Prices**

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

2.54 percent, somewhat higher than December's reading of 2.01 percent. Finished goods prices rose at a 0.85 percent pace, slightly below December's reading of 1.57 percent.

Looking ahead six months, respondents on average expected that the prices they pay will advance at a 1.97 percent pace, somewhat below December's outlook of 2.54 percent. Contacts looked for finished goods prices to increase at a 1.11 percent annual rate, slightly above last month's expectation for a 0.87 percent pace.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Jan-13	Dec-12	Nov-12	Jan-13	Dec-12	Nov-12
Fifth District Manufacturing Index <sup>3</sup>	-12	5	9	--	--	--
<b>Company Conditions</b>						
Shipments	-11	6	11	18	20	28
Volume of New Orders	-17	10	11	18	12	25
Backlog of Orders	-19	-11	-9	0	0	19
Capacity Utilization	-18	3	-3	10	4	12
Vendor Lead-time	-4	3	0	4	-3	10
Number of Employees	-5	-3	3	0	2	0
Average Workweek	-4	-2	2	1	-5	6
Wages	11	10	10	20	21	28
Capital Expenditures	--	--	--	12	9	4
<b>Inventory Levels</b>						
Finished Goods Inventories	23	12	19	--	--	--
Raw Materials Inventories	23	24	21	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	2.54	2.01	1.99	1.97	2.54	1.95
Prices Received	0.85	1.57	1.72	1.11	0.87	1.29

**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 103 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.