

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Grew At A Slower Pace In March; Expectations Were Upbeat

Overview

Manufacturing activity in the central Atlantic region expanded at a slower pace in March after rebounding in February, according to the Richmond Fed's latest survey. Looking at the main components of activity, factory shipments and employment remained in positive territory, while the volume of new orders declined somewhat. Other indicators also suggested softer activity. Capacity utilization and delivery times turned negative, and the gauge for backlogs fell further. In addition, finished goods inventories grew at a slightly slower rate.

Looking ahead, manufacturers in March were more optimistic about their future business prospects. An increasing number of contacts anticipated faster growth for shipments, new orders, backlogs capacity utilization and capital expenditures compared to a month ago.

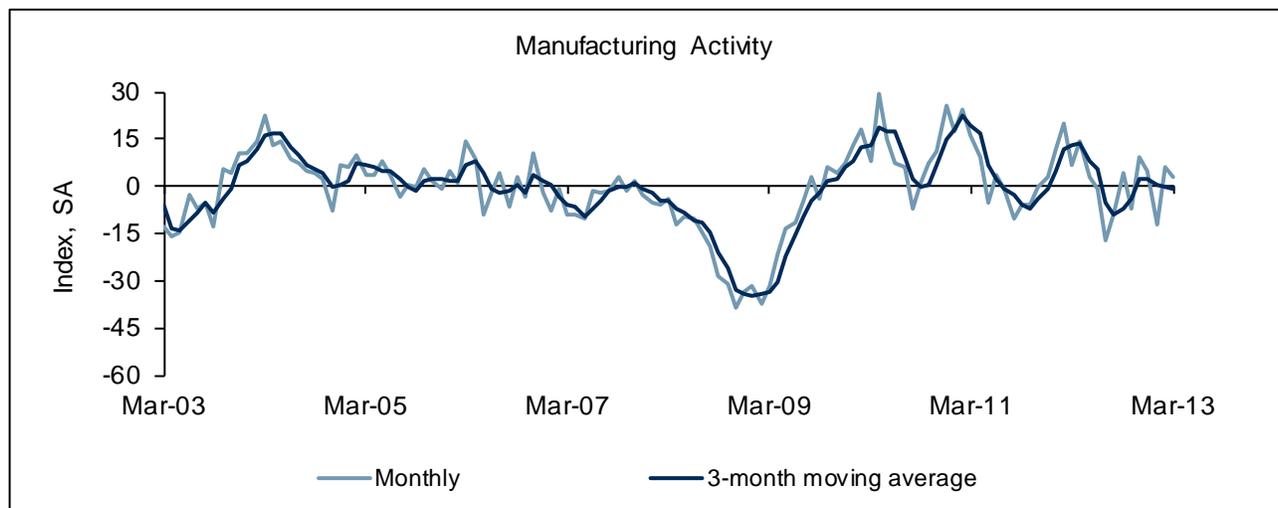
Survey participants indicated that both raw materials and finished goods prices grew at a slightly slower pace than in February. Over the next six months, respondents expected both raw

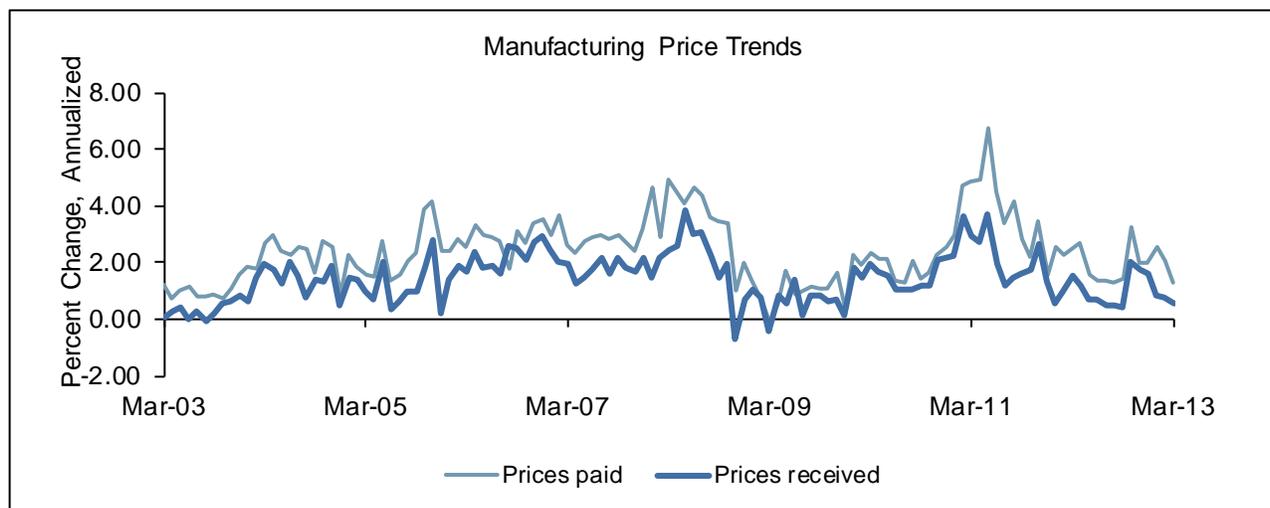
materials and finished goods prices to grow at a slightly slower rate than they had anticipated a month earlier.

Current Activity

In March, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—lost three points settling at 3 from February's reading of 6. Among the index's components, shipments slipped two points to 8, the gauge for new orders moved down four points to end at -4, and the jobs index added one point to end at 9.

Other indicators also suggested weaker activity in March. The index for capacity utilization turned negative, losing fourteen points to -3, and the index for backlogs of orders dropped two points to finish at -14. The delivery times index edged down two points end at -2, while gauges for our inventories were mixed in March. The raw materials inventory index increased six points to finish at 22, and the finished goods inventories moved down two points to end at 10.





Employment

Hiring activity at District plants strengthened in March. The manufacturing employment index moved up one point to 9, and the average workweek indicator recouped twelve points to end at 10. In contrast, the wage index softened seven points to finish at 4.

Expectations

In the current survey, contacts were more optimistic about their future business prospects than they reported a month ago. The index of expected shipments added three points, ending at a reading of 31, and the new orders index picked up five points to also finish at 31. The index for backlogs rose one point to a reading of 12, while the gauge for capacity utilization jumped ten points to 23. The indicator for vendor lead-time eased one point to 1, and the index for planned capital expenditures gained ten points to finish at 17.

District manufacturers' hiring plans were also more optimistic in March. The index for expected manufacturing employment gained four points to finish at a reading of 16, and the average workweek indicator rose ten points to end at 11. The index for expected wages held steady at 25.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.28 percent, somewhat lower than February's

average reading of 2.04 percent. Finished goods prices rose at a 0.54 percent pace, also slightly lower than February's reading of 0.79 percent.

Looking ahead six months, respondents on average expected that the prices they pay will advance at a 1.77 percent pace, somewhat below February's outlook of 2.72 percent. Contacts looked for finished goods prices to increase at a 1.14 percent annual rate, also slightly below last month's expectation for a 1.80 percent pace.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Mar-13	Feb-13	Jan-13	Mar-13	Feb-13	Jan-13
Fifth District Manufacturing Index ³	3	6	-12	--	--	--
Company Conditions						
Shipments	8	10	-11	31	28	18
Volume of New Orders	-4	0	-17	31	26	18
Backlog of Orders	-14	-12	-19	12	11	0
Capacity Utilization	-3	11	-18	23	13	10
Vendor Lead-time	-2	0	-4	1	2	4
Number of Employees	9	8	-5	16	12	0
Average Workweek	10	-2	-4	11	1	1
Wages	4	11	11	25	25	20
Capital Expenditures	--	--	--	17	7	12
Inventory Levels						
Finished Goods Inventories	10	12	23	--	--	--
Raw Materials Inventories	22	16	23	--	--	--
Price Trends ⁴						
Prices Paid	1.28	2.04	2.54	1.77	2.72	1.97
Prices Received	0.54	0.79	0.85	1.14	1.80	1.11

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 101 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.