

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Declined At A Slightly Slower Rate In May; Expectations Improved

Overview

Manufacturing activity in the central Atlantic region contracted at a less pronounced rate in May after pulling back in April, according to the Richmond Fed's latest survey. Looking at the main components of activity, volume of new orders edged lower and employment turned marginally negative. Shipments however, moved into positive territory. Evidence of diminished weakness was also reflected in most other indicators. District contacts reported that backlogs and capacity utilization remained negative but improved from April readings, while the gauge for delivery times turned positive. In addition, inventories grew at a slightly slower rate.

Looking ahead, manufacturers in May were more optimistic about their future business prospects. An increasing number of contacts anticipated that new orders, backlogs, capacity utilization and capital expenditures would grow at a solid pace in coming months.

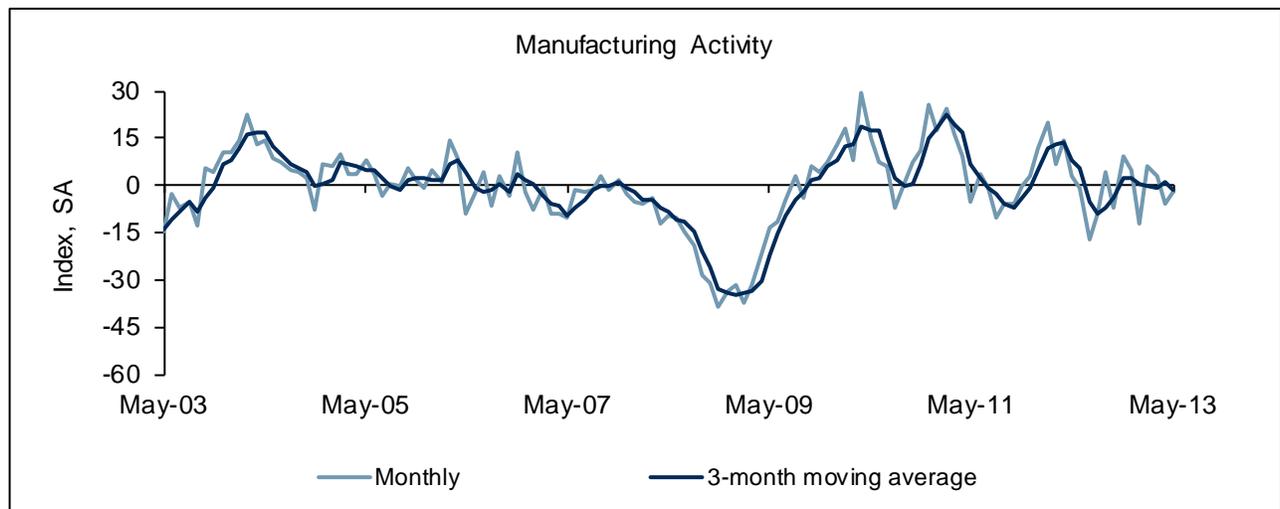
Survey participants indicated that raw materials prices grew at a somewhat slower rate than a

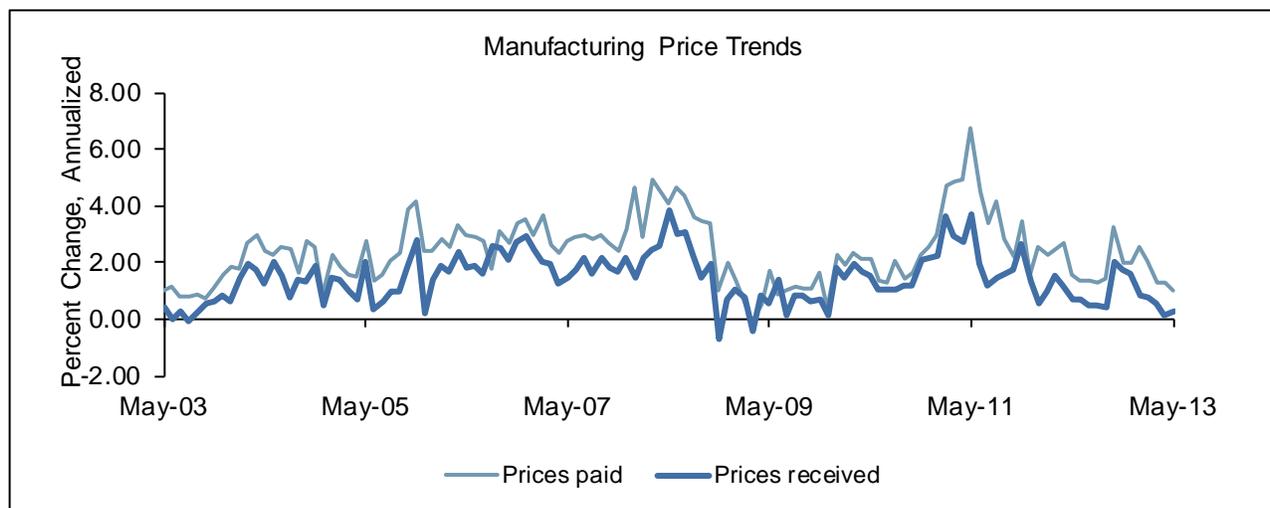
month ago, while finished goods prices grew at a slightly quicker pace. Over the next six months, however, respondents expected both raw materials and finished goods prices to grow at a slightly quicker rate than they had anticipated last month.

Current Activity

In May, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—gained four points settling at -2 from April's reading of -6. Among the index's components, shipments recouped seventeen points to 8, the gauge for new orders slipped two points to finish at -10, and the jobs index subtracted six points to end at -3.

Most other indicators also suggested some easing in the pace of recent weakness. The index for capacity utilization picked up twelve points to settle at -6, and the index for backlogs of orders gained ten points to finish at -11. The delivery times index turned positive, moving up four points to end at 2, while gauges for our inventories were somewhat lower in May. The raw materials inventory index





decreased eleven points to finish at 7, and the finished goods inventories moved down three points to end at 6.

Employment

Hiring activity at District plants was somewhat weaker in May. The manufacturing employment index moved down six points to -3, and the average workweek indicator lost three points to end at -6. Moreover, the wage index subtracted six points to finish at 6.

Expectations

In the current survey, contacts were slightly more optimistic about their future business prospects than they reported a month ago. The index of expected shipments eased three points to a reading of 22, while the new orders index edged up two points to finish at 28. The index for backlogs added six points to a reading of 16, while the gauge for capacity utilization increased five points to 20. The indicator for vendor lead-time rose eight points to 8, and the index for planned capital expenditures was little changed at 9.

District manufacturers' hiring plans were also slightly more optimistic in May. The index for expected manufacturing employment moved up four points to finish at a reading of 4, and the average workweek indicator picked up eight points to end at 6. However, the index for expected wages lost eight points to 22.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 1.00 percent, slightly lower than April's reading of 1.27 percent pace. Finished goods prices rose at a 0.24 percent pace, up somewhat from April's reading of 0.15 percent.

Looking ahead six months, respondents expected that the prices they pay will advance at a 1.91 percent pace, somewhat above April's outlook of 1.85 percent. Contacts looked for finished goods prices to increase at a 1.67 percent annual rate, also slightly above last month's 1.26 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		
	May-13	Apr-13	Mar-13	May-13	Apr-13	Mar-13
Fifth District Manufacturing Index ³	-2	-6	3	--	--	--
Company Conditions						
Shipments	8	-9	8	22	25	31
Volume of New Orders	-10	-8	-4	28	26	31
Backlog of Orders	-11	-21	-14	16	10	12
Capacity Utilization	-6	-18	-3	20	15	23
Vendor Lead-time	2	-2	-2	8	0	1
Number of Employees	-3	3	9	4	0	16
Average Workweek	-6	-3	10	6	-2	11
Wages	6	12	4	22	30	25
Capital Expenditures	--	--	--	9	8	17
Inventory Levels						
Finished Goods Inventories	6	9	10	--	--	--
Raw Materials Inventories	7	18	22	--	--	--
Price Trends⁴						
Prices Paid	1.00	1.27	1.28	1.91	1.85	1.77
Prices Received	0.24	0.15	0.54	1.67	1.26	1.14

Technical Notes:

- Each index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. Data are seasonally adjusted.
- 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.