

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

### *Manufacturing Activity Increased in June; Expectations Remained Upbeat*

#### Overview

Manufacturing activity in the central Atlantic region advanced moderately in June after contracting at a less pronounced rate in May, according to the Richmond Fed's latest survey. All broad indicators—shipments, new orders and employment—landed in positive territory. Most other indicators showed similar notable improvement. District contacts reported that backlogs were down but just barely, whereas capital utilization improved from May readings. The gauge for delivery times was little changed and finished goods inventories continued to grow, though at a slightly slower rate.

Looking forward, assessments of business prospects for the next six months were generally in line with last month's expectations. Contacts anticipated continued growth in shipments, new orders, and capacity utilization in the months ahead while they anticipated backlogs would grow more slowly.

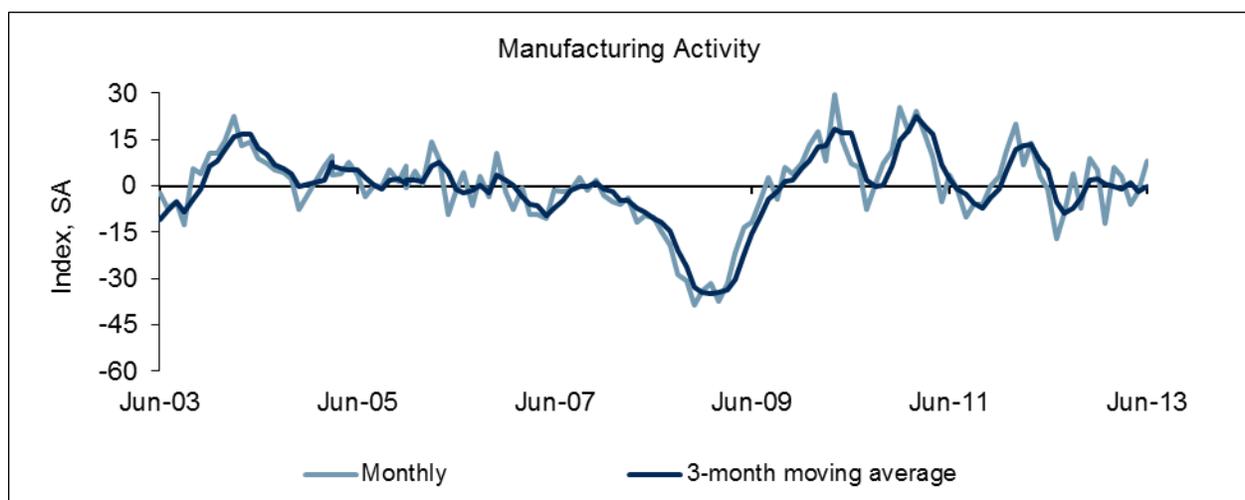
Survey participants indicated that both raw materials and finished goods prices grew at a somewhat quicker rate than a month ago.

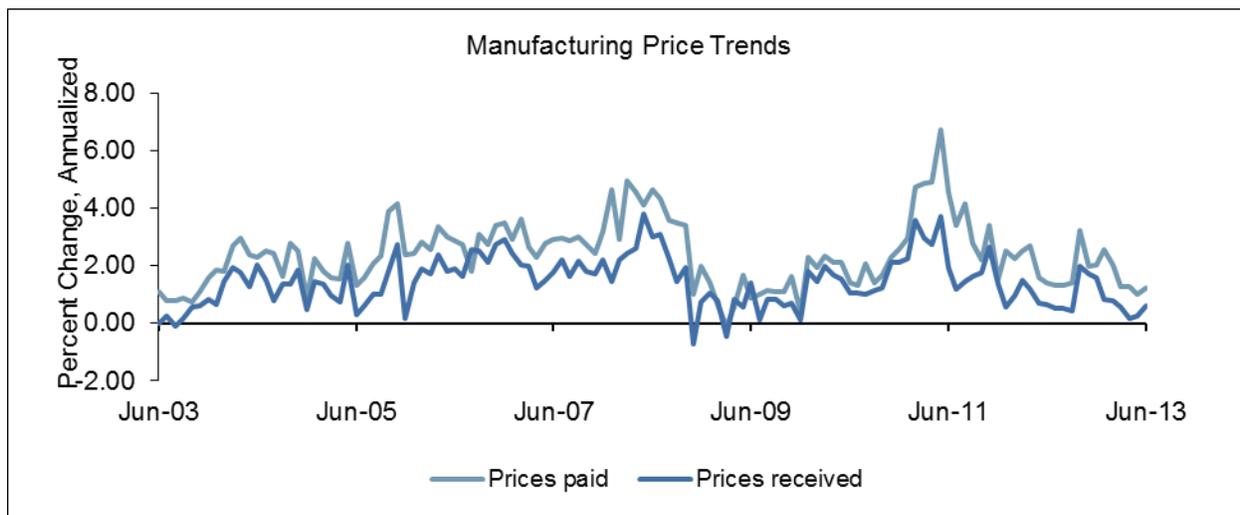
Respondents expected raw materials to grow at a somewhat quicker pace in the next six months than they had anticipated last month, while they expected finished goods prices to grow at a slightly slower rate than last month's outlook.

#### Current Activity

The seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—gained ten points in June to settle at 8. Among the index's components, shipments inched up three points to 11, the gauge for new orders jumped nineteen points to finish at 9, and the jobs index added seven points to end at 4.

Most other indicators also suggested stronger activity. The index for capacity utilization returned to positive territory, picking up seven points to settle at 1, and the index for backlogs of orders gained ten points to finish at -1. The delivery times index was nearly unchanged at 1, while gauges for inventories were mixed in June. The raw materials inventory index edged up two points to finish at 9, and the index for finished goods inventories moved down four points to end at 2.





**Employment**

Hiring activity at District plants increased in June. The manufacturing employment index moved up seven points to 4 and the average workweek indicator rose eighteen points to end at 12. Moreover, the wage index added six points to finish at 12.

**Expectations**

In the current survey, contacts remained generally confident about their business prospects for the coming six months. The index of expected shipments edged up one point from the May reading, ending at 23, while the new orders index trimmed five points to also finish at 23. The index for backlogs fell ten points to a reading of 6, while the gauge for capacity utilization eased two points to 18. The indicator for vendor lead-time moved down six points to 2 and the index for planned capital expenditures was little changed at 10.

District manufacturers' hiring plans were also optimistic in June. The index for expected manufacturing employment moved up nine points to finish at a reading of 13, while the average workweek indicator held steady at 6. In addition, the index for expected wages gained five points to end the survey period at 27.

**Prices**

District manufacturers reported that raw materials prices increased at an average annual rate of 1.24 percent, slightly higher than May's reading of

1.00 percent. Finished goods prices rose at a 0.62 percent pace, up somewhat from May's reading of 0.24 percent.

Looking ahead six months, respondents expected the prices they pay to advance at a 2.06 percent pace, compared to May's outlook for 1.91 percent. Contacts looked for finished goods prices to increase at a 1.42 percent annual rate, slightly below last month's expectation for a 1.67 percent pace.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Jun-13	May-13	Apr-13	Jun-13	May-13	Apr-13
Fifth District Manufacturing Index <sup>3</sup>	8	-2	-6	--	--	--
<b>Company Conditions</b>						
Shipments	11	8	-9	23	22	25
Volume of New Orders	9	-10	-8	23	28	26
Backlog of Orders	-1	-11	-21	6	16	10
Capacity Utilization	1	-6	-18	18	20	15
Vendor Lead-time	1	2	-2	2	8	0
Number of Employees	4	-3	3	13	4	0
Average Workweek	12	-6	-3	6	6	-2
Wages	12	6	12	27	22	30
Capital Expenditures	--	--	--	10	9	8
<b>Inventory Levels</b>						
Finished Goods Inventories	2	6	9	--	--	--
Raw Materials Inventories	9	7	18	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	1.24	1.00	1.27	2.06	1.91	1.85
Prices Received	0.62	0.24	0.15	1.42	1.67	1.26

**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 90 firms.
- 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.