

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

### *Manufacturing Activity Weakened; Outlook Remained Optimistic*

#### Overview

Manufacturing activity in the central Atlantic region declined in July, according to the most recent survey by the Federal Reserve Bank of Richmond.\* Shipments, new orders, backlogs, and capacity utilization fell this month. Vendor lead-time remained virtually unchanged, while finished goods inventories rose more quickly. On the employment front, hiring and the average workweek flattened. Average wages rose more slowly than in June.

Looking ahead six months, manufacturers were optimistic about business. Expectations were for stronger new orders and shipments, along with a rise in capacity utilization. However, hiring expectations were muted and expected changes in the average workweek remained moderate. In contrast, producers looked for stronger wage growth and they also expected to increase capital expenditures in the months ahead.

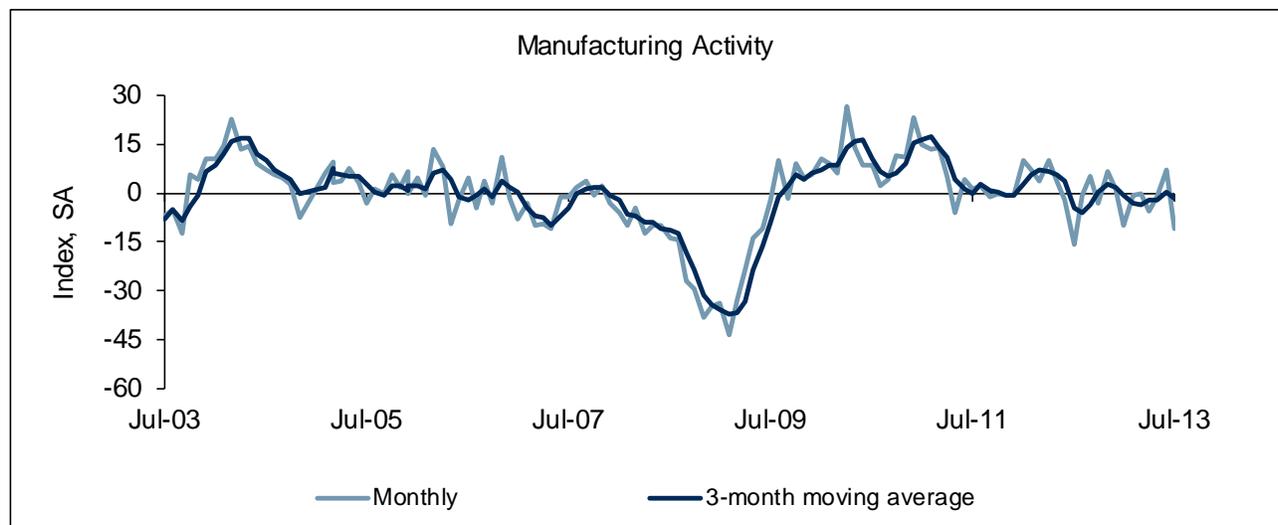
Raw materials and finished goods prices grew more quickly in July, according to survey

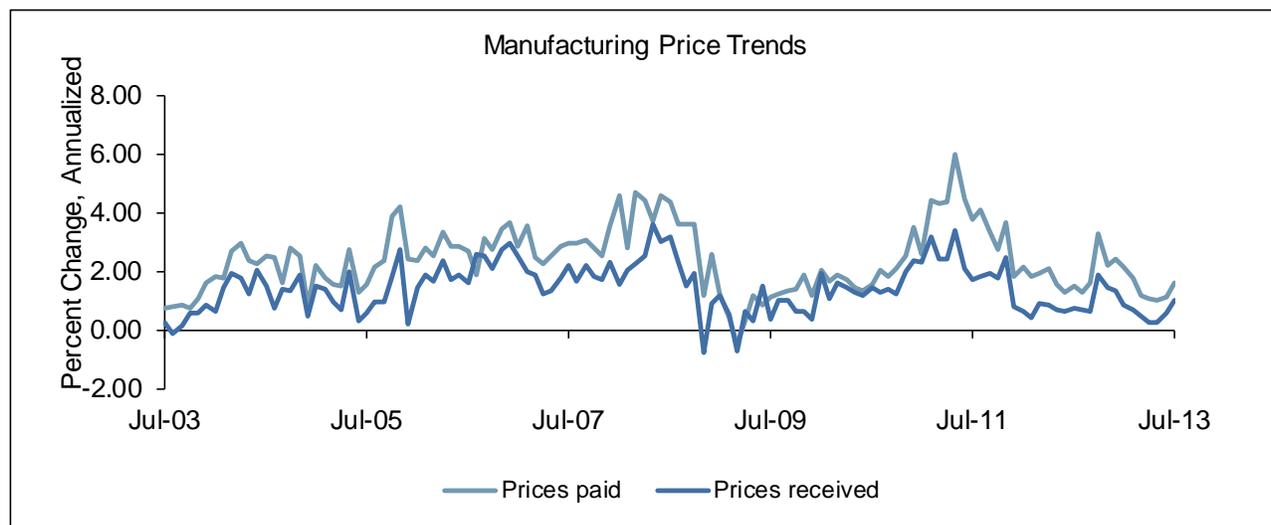
respondents. Looking ahead, survey participants anticipated somewhat faster price growth for both raw materials and finished goods. Compared to their June outlook, however, expectations for growth in prices paid were little changed, while this month's outlook for the pace of growth in prices received slipped below June's expectations.

#### Current Activity

The seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—fell eighteen points in July to a reading of -11. Among the components of that index, shipments dropped twenty-six points to -15 in July. The new orders index also fell to -15; the previous reading was 9; and the gauge for the number of employees remained at 0 for a second month in July.

Capacity utilization declined this month, with that index falling ten points to -9, and the index for backlogs of orders also fell sharply, ending the survey period at -24 compared to last month's reading of -1. Finished goods built up more quickly;





the index climbed to 15 in July from 5. Raw materials inventories rose again, with that index one point above June's marker at 11.

**Employment**

The index for the number of employees settled at 0, matching last month, and the gauge for the average manufacturing workweek slowed to 2 from June's reading of 11. Average wages also grew somewhat more slowly, with the index shedding two points to end at 8 in July.

**Expectations**

Surveyed manufacturers were optimistic about prospects for the next six months. The indexes for expected shipments and new orders both rose to 24, three points above the June readings, while the backlogs gauge flattened to 0 from a June reading of 6. Survey-takers expected capacity utilization to increase, although their outlook was somewhat more restrained than that of a month earlier; the indicator shed five points to settle at 13. The index for expected vendor lead-time added six points to end at 8 in July, and the indicator for planned capital expenditures tacked on two points in July, ending at 11.

District manufacturers' plans for hiring were modest, with the index for the expected number of employees dropping to 5 from June's reading of 9. The outlook for the average workweek inched up two points to 8. Expectations for wage growth remained solid, with the index at 21 compared to 26 last month.

**Prices**

Prices for raw materials increased at an average annual rate of 1.60 percent compared to last month's 1.13 percent pace. Finished goods prices rose at a 1.02 percent pace following a 0.62 percent rate of increase in June.

Survey respondents expected the prices they pay to rise at a 2.06 percent pace, compared to their June outlook for 2.01 percent. Expectations for finished goods price increases were below June's outlook, at a 1.17 percent annual rate; a month ago, a 1.63 percent rate of growth was expected.

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*\*Seasonal adjustment factors were recalculated this month and applied to historical data to better reflect current economic trends. In this report, comparisons to last month's indexes are made to the revised June indexes. New factors will be calculated annually.*

## Business Activity Indexes<sup>1,5</sup>

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Jul-13	Jun-13	May-13	Jul-13	Jun-13	May-13
Fifth District Manufacturing Index <sup>3</sup>	-11	7	-1	--	--	--
<b>Company Conditions</b>						
Shipments	-15	11	8	24	21	21
Volume of New Orders	-15	9	-8	24	21	25
Backlog of Orders	-24	-1	-12	0	6	13
Capacity Utilization	-9	1	-6	13	18	20
Vendor Lead-time	3	2	2	8	2	7
Number of Employees	0	0	-3	5	9	4
Average Workweek	2	11	-4	8	6	5
Wages	8	11	7	21	26	22
Capital Expenditures	--	--	--	11	9	9
<b>Inventory Levels</b>						
Finished Goods Inventories	15	5	8	--	--	--
Raw Materials Inventories	11	10	7	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	1.60	1.13	1.00	2.06	2.01	1.91
Prices Received	1.02	0.62	0.25	1.17	1.63	1.58

### 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 91 firms.
- <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> This table includes recalibrated seasonally adjusted indexes to better reflect current economic trends.