

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Strengthened, Hiring Remained Modest

Overview

Fifth District manufacturing activity strengthened in August, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments, new orders, and capacity utilization rose. Additionally, the ongoing decline in the backlog of orders slowed this month. Vendor lead-time flattened and finished goods inventories grew a bit more slowly. Employment measures improved as well; the number of employees expanded modestly, and the average work week also picked up. Average wages increased.

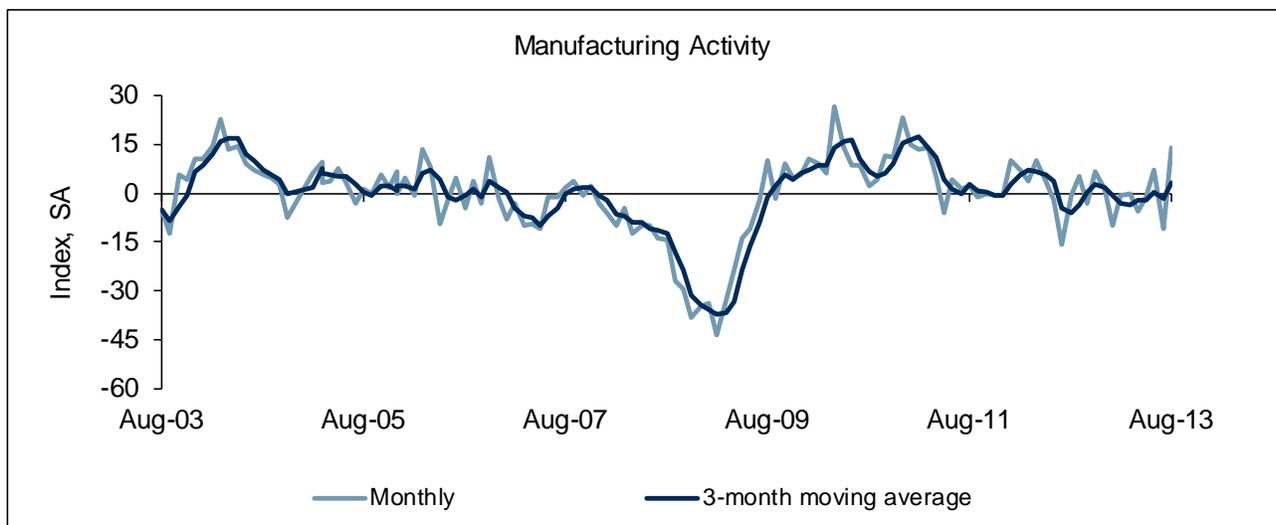
Manufacturers expected greater strength in the six months ahead. Expectations rose across all categories measured: new orders and shipments, backlogs, capacity utilization, and vendor lead time. Capital expenditures were also projected to expand further. Producers anticipated modest growth in the number of employees and a somewhat longer average workweek. In addition, they expected average wages to increase briskly. Raw materials and finished goods prices grew

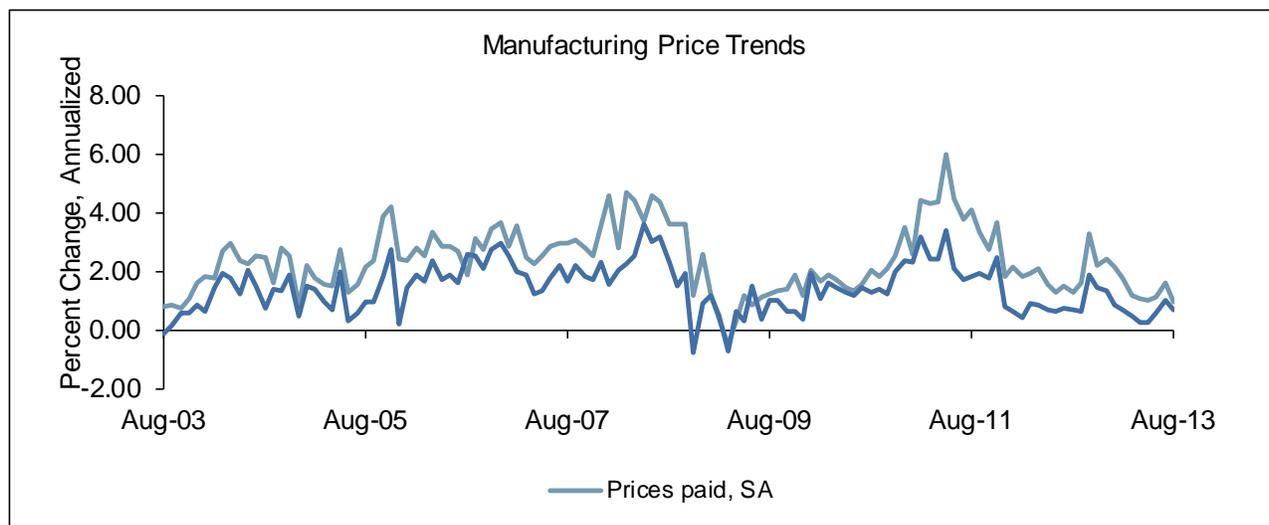
more slowly in August. However, compared to a month ago, survey participants expected faster future price increases for both raw materials and finished goods.

Current Activity

The composite index of manufacturing activity rebounded in August, climbing twenty-five points above the July reading to 14. The components of that index all rose this month, with the index for shipments jumping to 17 from the previous reading of -15 and the index for new orders moving to 16 from -15. The marker for the number of employees picked up to 6 from July's reading of 0.

Capacity utilization made a weak comeback, with the index ending the survey period at 3 compared to last month's index of -9. The gauge for the backlog of orders declined by much less than a month ago, with that index settling at -6 from the previous reading of -24. Finished goods inventories continued to accumulate at a moderate rate, with the index ending at 13 in August compared to 15. Raw materials inventories grew a





bit faster than in July, picking up two points to end at 13.

Employment

The index for the number of employees moved up to 6 in August following a flat reading a month ago. The indicator for the average manufacturing workweek also gained, picking up six points to post a reading of 8. In addition, average wage growth intensified, pushing the index to 13 from July's reading of 8.

Expectations

Manufacturers were decidedly upbeat about business prospects for the next six months. The index for expected shipments rose to 36 from July's reading of 24, and the indicator for the volume of new orders added nine points to last month's index to finish the month at a reading of 33. The index for backlogs climbed to 15 in August, after flattening in July. Expectations were for greater capacity utilization with that index at 24, eleven points higher than a month ago. The index for expected vendor lead-time ticked up two more points this month, ending at 10, while the indicator for planned capital expenditures rose four points to 15.

Manufacturers planned to increase hiring in the six months ahead; the marker for the number of employees picked up four points to settle at 9, while the index for the average workweek moved up to 10 from last month's reading of 8.

Employers also anticipated robust wage growth, pushing that index to 28 in August from 21.

Prices

Raw materials prices rose more slowly this month, at an annualized rate of 0.99 percent, while growth in prices received slowed to a 0.69 percent rate. In July, those growth rates were 1.60 percent and 1.02 percent.

Survey respondents anticipated slightly quicker price growth in the months ahead. They looked for input prices to advance at an annualized 2.15 percent pace compared to July's outlook for 2.06 percent price growth. Expectations were for finished goods prices to rise at a 1.23 percent pace; in July, survey-takers anticipated prices received would grow at a 1.17 percent rate.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Aug-13	Jul-13	Jun-13	Aug-13	Jul-13	Jun-13
Fifth District Manufacturing Index ³	14	-11	7	--	--	--
Company Conditions						
Shipments	17	-15	11	36	24	21
Volume of New Orders	16	-15	9	33	24	21
Backlog of Orders	-6	-24	-1	15	0	6
Capacity Utilization	3	-9	1	24	13	18
Vendor Lead-time	1	3	2	10	8	2
Number of Employees	6	0	0	9	5	9
Average Workweek	8	2	11	10	8	6
Wages	13	8	11	28	21	26
Capital Expenditures	--	--	--	15	11	9
Inventory Levels						
Finished Goods Inventories	13	15	5	--	--	--
Raw Materials Inventories	13	11	10	--	--	--
Price Trends ⁴						
Prices Paid	0.99	1.60	1.13	2.15	2.06	2.01
Prices Received	0.69	1.02	0.62	1.23	1.17	1.63

Technical Notes:

- ¹ 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 81 firms.
- ² Expectations refer to the time period six months out from the survey period.
- ³ 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.
- ⁴ Price changes are expressed a percent change, annualized.