

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Stalled; Employment Weakened; Price Growth Quickened

Overview

Fifth District manufacturing activity was little changed in September, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments, capacity utilization, and vendor lead time flattened, while the volume of new orders slowed. The backlog of new orders remained in decline. Finished goods inventories and raw materials inventories built up at about the same pace as in August. Manufacturing employment fell and the average work week shrank, while wage growth remained robust.

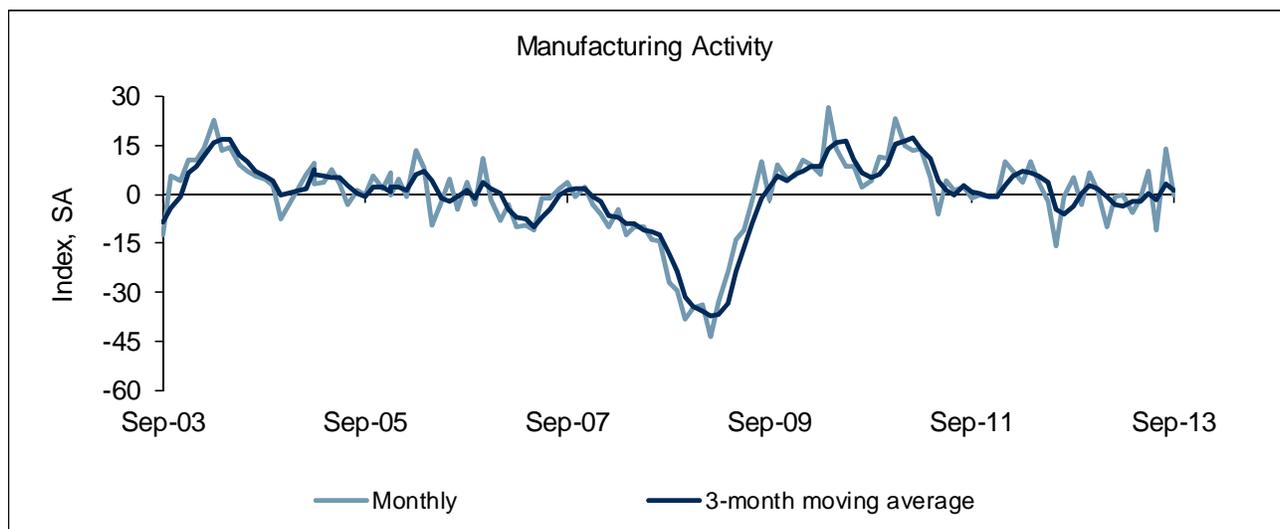
Looking ahead six months, manufacturers' optimism about business prospects strengthened. Firms expected a greater volume of new orders, rising capacity utilization, with shorter lead-times and a solid increase in shipments. Further, they anticipated that the backlog of orders would grow. Additionally, survey participants expected a jump in capital expenditures. Manufacturers looked for the number of employees to climb and average workweek to moderate. Their outlook was for slightly slower average wage growth.

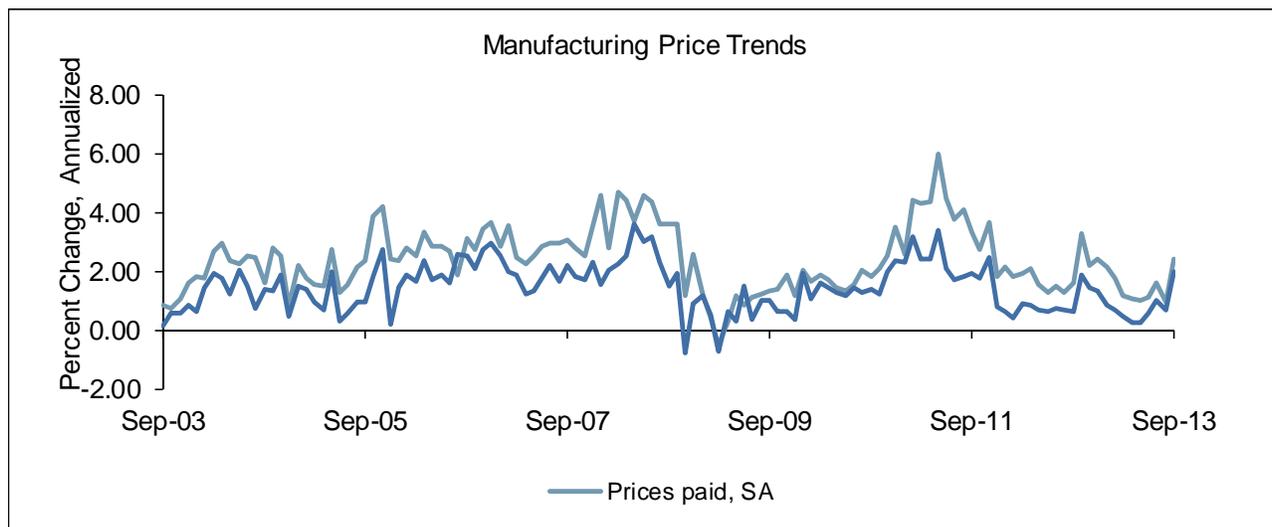
Raw materials and finished goods prices rose more quickly in September compared to last month. In addition, relative to their outlook of a month ago, surveyed manufacturers expected prices to rise more quickly in the next six months.

Current Activity

The composite index of manufacturing activity was flat in September, at a reading of 0 following last month's 14, as the component indexes cooled this month. The index for shipments dropped to -1 from last month's reading of 17, and the index for new orders settled at a reading of 5 compared to 16. The index for the number of employees fell twelve points from last month to settle at -6.

Vendor lead-time was virtually unchanged, remaining at an index of 1 for a second month. Capacity utilization also remained tepid, with that index at 1 after the August reading of 3. The index for the backlog of orders dropped a point to finish the survey period at -7. Finished goods inventories built up moderately, leaving that indicator at 11, two points below the August reading. The raw materials inventories index tacked on a point to finish at 14 in September.





Employment

Manufacturing employment weakened this month, pulling the index to -6 from the August reading of 6. The average manufacturing workweek also declined, with that index dropping twelve points from a month ago to -4. However average wages continued to grow at a brisk pace, keeping the index at 13 for a second month.

Expectations

The overall outlook of producers for the next six months was for stronger business conditions. The gauge for expected shipments added three points to end at 39, and the index for the volume of new orders rose two points to 35 this month. Manufacturers looked for slower vendor lead-times, bringing that index to 6 from last month’s reading of 10. Finally, capacity utilization was projected to rise, with the index picking up five points in September to finish at 29. Manufacturers expected to increase capital spending during the next six months; the index rose to 31 from 15.

Manufacturing employment in the six months ahead was expected to be stronger, bringing the average workweek down somewhat. The index for the projected number of employees rose to 17 from last month’s reading of 9. The indicator for the expected average workweek trimmed two points to end the survey period at 8. Expected wages continued to rise briskly, with the index at 26 compared to last month’s reading of 28.

Prices

Prices of raw materials rose at a faster pace in September, climbing at an annualized 2.44 percent rate compared to 0.99 percent a month earlier. Finished goods prices also accelerated to a 1.98 percent annualized rate, following last month’s 0.69 percent pace.

Looking to the six months ahead, survey-takers expected input prices would grow more quickly, rising at an annualized 2.26 percent rate, compared to their expectations of 2.15 percent a month ago. Expectations were for finished goods prices to rise at a 1.73 percent annualized rate, while a month earlier, survey respondents expected a 1.23 percent rate.

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Business Activity Indexes¹

General Business Assessment

	Current Conditions			Expectations ²		
	Sep-13	Aug-13	Jul-13	Sep-13	Aug-13	Jul-13
Fifth District Manufacturing Index ³	0	14	-11	--	--	--

Company Conditions

	Sep-13	Aug-13	Jul-13	Sep-13	Aug-13	Jul-13
Shipments	-1	17	-15	39	36	24
Volume of New Orders	5	16	-15	35	33	24
Backlog of Orders	-7	-6	-24	18	15	0
Capacity Utilization	1	3	-9	29	24	13
Vendor Lead-time	1	1	3	6	10	8
Number of Employees	-6	6	0	17	9	5
Average Workweek	-4	8	2	8	10	8
Wages	13	13	8	26	28	21
Capital Expenditures	--	--	--	31	15	11

Inventory Levels

	Sep-13	Aug-13	Jul-13	Sep-13	Aug-13	Jul-13
Finished Goods Inventories	11	13	15	--	--	--
Raw Materials Inventories	14	13	11	--	--	--

Price Trends⁴

	Sep-13	Aug-13	Jul-13	Sep-13	Aug-13	Jul-13
Prices Paid	2.44	0.99	1.60	2.26	2.15	2.06
Prices Received	1.98	0.69	1.02	1.73	1.23	1.17

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 88 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.