

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

### *Manufacturing Sector Strengthened; Shipments and New Orders Rose*

#### Overview

Manufacturing in the Fifth District improved in November, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders rose. Employment, average workweek, and wages also picked up this month. Capacity utilization and the backlog of orders flattened, while vendor lead-time rose at a slower pace.

Manufacturers were optimistic about their future business prospects. Firms anticipated shipments and the volume of new orders would grow more quickly during the next six months. Additionally, they expected an increase in capacity utilization. Producers looked for rising backlogs of new orders and expected shorter vendor lead times. Survey participants predicted an increase in the number of employees and faster wage growth during the next six months. Additionally, firms projected slower growth in the average work week.

Raw materials and finished goods prices rose at a slower pace in November compared to last month. For the six months ahead, manufacturers expected slower growth in prices paid, while prices received were

projected to increase at a faster pace, compared to their outlook of a month ago.

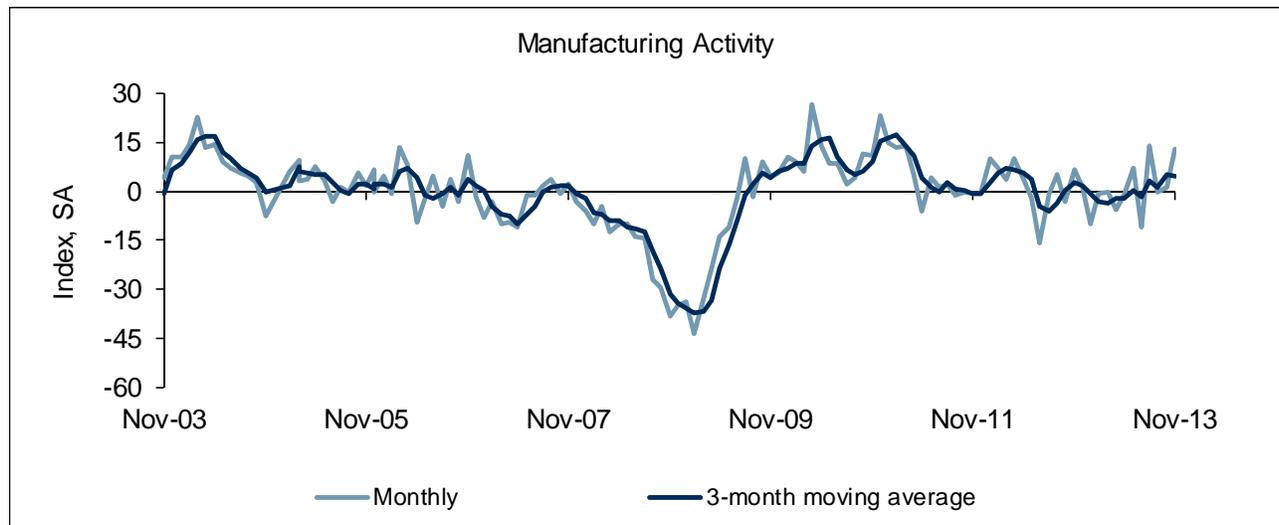
#### Current Activity

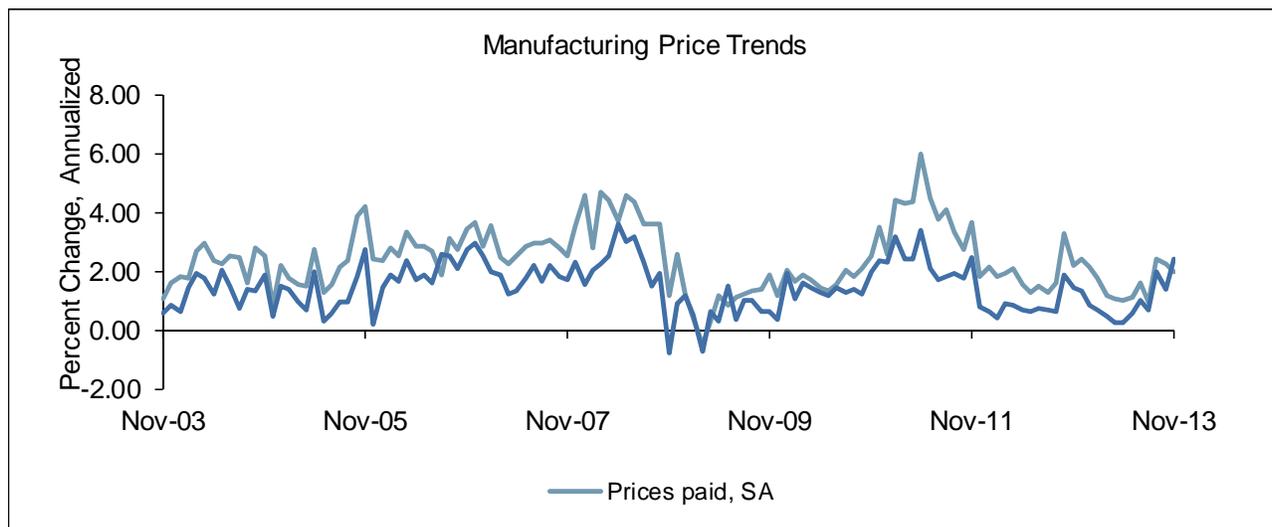
The composite index of manufacturing strengthened, climbing to a reading of 13 in November following last month's reading of 1. The index of shipments improved 18 points, ending at 16, and the index for new orders advanced 15 points compared to a month ago. In addition, the index for the number of employees gained two points, finishing at a reading of 6.

Vendor lead-time shortened, shaving three points from last month's index, to settle at 8. The backlog of orders index gained 14 points moving to a reading of -1. Capacity utilization flattened in November; the index gained five points, leveling off at 0. Finished goods and raw materials built up at a slightly slower rate this month. Those indexes shed one and three points respectively, with both gauges ending at a reading of 13.

#### Employment

Manufacturing employment edged up this month, moving the index to 6 from 4. The average workweek





grew solidly, pushing that index up 13 points to end at a reading of 12. Additionally, average wages grew more quickly, reaching an index of 15 compared to last month's reading of 9.

**Expectations**

Producers anticipated stronger business conditions in the next six months. The index for expected shipments finished at a reading of 37, seven points above last month's outlook. Survey participants expected further strengthening in the volume of new orders, pushing the index to 33, following a reading of 23 a month ago.

Manufacturers anticipated a moderate increase in backlogs, leaving the index at 11 for a second month. Firms' projections for capacity utilization strengthened further in November, bringing that outlook index to 20 from 18. Producers anticipated a shorter vendor lead-time, translating to a five-point drop in the gauge. Manufacturers continued to plan more capital spending; at an index of 23, the November gauge nearly matched last month's reading.

Manufacturers expected to increase hiring in the six months ahead, the index for employment added three points ending at 16. Survey participants looked for little change in the average workweek during the next six months. The index settled at 2, following the previous reading of 5. Survey participants expected average wages to rise more quickly in the next six months; that index gained 10 points in November, finishing at 31.

**Prices**

Prices of raw materials rose more slowly compared to last month, advancing at an annualized 1.97 percent rate, compared to 2.27 percent. Prices of finished goods rose at a 1.08 percent annualized rate, below October's 1.38 percent rise.

For the six months ahead, survey respondents expected input prices would slow further, to an annualized 1.75 percent rate, following October's expectation for a 2.08 percent pace. Finished goods prices were expected to increase at a 1.22 percent annualized rate, compared to the previous expectation for 0.90 percent growth.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Nov-13	Oct-13	Sep-13	Nov-13	Oct-13	Sep-13
Fifth District Manufacturing Index <sup>3</sup>	13	1	0	--	--	--
Company Conditions						
Shipments	16	-2	-1	37	30	39
Volume of New Orders	15	0	5	33	23	35
Backlog of Orders	-1	-15	-7	11	11	18
Capacity Utilization	0	-5	1	20	18	29
Vendor Lead-time	8	11	1	1	6	6
Number of Employees	6	4	-6	16	13	17
Average Workweek	12	-1	-4	2	5	8
Wages	15	9	13	31	21	26
Capital Expenditures	--	--	--	23	24	31
Inventory Levels						
Finished Goods Inventories	13	14	11	--	--	--
Raw Materials Inventories	13	16	14	--	--	--
Price Trends <sup>4</sup>						
Prices Paid	1.97	2.27	2.44	1.75	2.08	2.26
Prices Received	1.08	1.38	1.98	1.22	0.90	1.73

**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 96 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.

