

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Growth Remained Steady; Employment Gained Traction

Overview

Fifth District manufacturing activity continued to grow at a slightly slower pace in December, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders grew at a slightly slower rate compared to last month. Manufacturing employment picked up this month, while wages and average work week rose more slowly. The backlog of orders and vendor lead time declined in December, as capacity utilization rose.

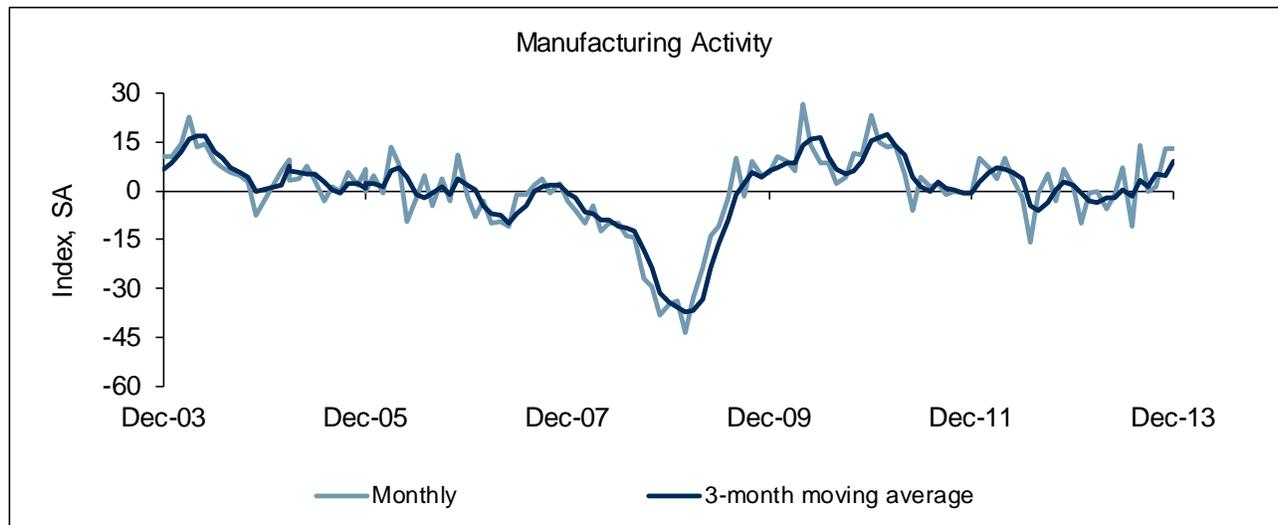
Manufacturers remained optimistic about their future business conditions. Survey participants predicted the volume of new orders and shipments would grow at a faster pace. Additionally, they looked for capacity utilization to grow more quickly during the next six months. Firms anticipated rising backlogs of new orders and longer vendor lead times. Producers expected the number of employees and wages to grow at a faster pace during the next six months. Compared with the current month, expectations were for slower growth in the average work week.

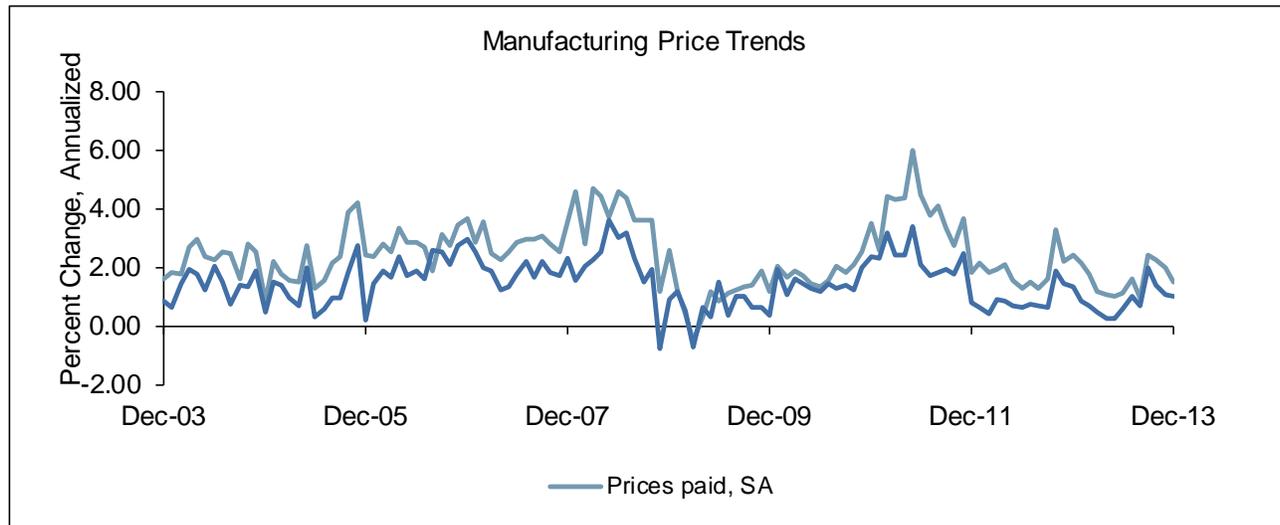
Raw materials and finished goods prices rose at a slower pace in December compared to last month. However manufacturers expected faster growth in prices paid and prices received over the next six months.

Current Activity

The composite index of manufacturing continued to grow at the same pace as last month's index, maintaining a reading of 13. The index of shipments slipped a point lower to 15, and the index for new orders dropped five points, ending at an indicator of 10. Employment grew at a faster rate this month ending the survey period at 14, nine points above the November reading.

Vendor lead time declined, moving the index to -4 from a reading of 8, while the backlog of orders index slowed further, ending at a reading of -8. In November, the index was -1. The capacity utilization index increased, climbing in December to 8 from 0. Both finished goods inventories and raw materials inventories grew more slowly compared to last month. Those gauges shed two and one points respectively, ending at a reading of 10 and 12.





Employment

Manufacturing employment grew solidly this month, pushing the index to 14 from 6. The average workweek grew more slowly, settling at an indicator of 6 compared to last month’s reading of 12. Further, average wages grew at a slower pace, shaving five points from last month’s index, to finish at a reading of 10.

Expectations

Manufacturers maintained their upbeat outlook for the six months ahead. The index for expected shipments grew only slightly slower; that gauge slipped to 34 from the previous reading of 37. Producers continued to anticipate further strengthening in new orders; at an index of 34, the December indicator nearly matched last month’s reading of 33.

Manufacturers expected backlogs to grow in the next six months. The December indicator gained seven points, ending at 18. Survey participants expected a steady rise in capacity utilization, pushing the index to 26, following a reading of 20 a month ago. Producers looked for slower vendor lead-time, bringing that index to 7 from last month’s flat reading of one. The index for expected capital spending softened to a reading of 9, 14 points lower than last month’s outlook.

Firms’ projections for hiring strengthened in the six months ahead; the index for employment added one point to the November indicator, ending at 17. Survey participants expected a small change in the

average workweek during the next six months. The index settled at 4, following a previous reading of 2. Manufacturers’ anticipated strong growth in average wages in the next six months, pushing the index up a point to 32.

Prices

Prices of raw materials rose more slowly compared to last month, advancing at an annualized 1.53 percent rate, compared to 1.97 percent. Prices of finished goods rose at a 1.04 percent annualized rate, slightly below November’s 1.08 percent rise.

For the six months ahead, survey respondents expected input prices would grow more quickly, at an annualized 2.05 percent rate, following November’s expectation for a 1.75 percent pace. Finished goods prices were expected to increase at a 1.07 percent annualized rate, compared to the previous expectation for 1.22 percent growth.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Dec-13	Nov-13	Oct-13	Dec-13	Nov-13	Oct-13
Fifth District Manufacturing Index ³	13	13	1	--	--	--
Company Conditions						
Shipments	15	16	-2	34	37	30
Volume of New Orders	10	15	0	34	33	23
Backlog of Orders	-8	-1	-15	18	11	11
Capacity Utilization	8	0	-5	26	20	18
Vendor Lead-time	-4	8	11	7	1	6
Number of Employees	14	6	4	17	16	13
Average Workweek	6	12	-1	4	2	5
Wages	10	15	9	32	31	21
Capital Expenditures	--	--	--	9	23	24
Inventory Levels						
Finished Goods Inventories	10	13	14	--	--	--
Raw Materials Inventories	12	13	16	--	--	--
Price Trends ⁴						
Prices Paid	1.53	1.97	2.27	2.05	1.75	2.08
Prices Received	1.04	1.08	1.38	1.07	1.22	0.90

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 71 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.