

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Sector Remains Strong; Pace of Growth Steady, Mild Improvement in New Orders*

### Overview

Manufacturing in the Fifth District maintained a steady pace of growth, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments continued at about last month's pace, while the volume of new orders edged up. New hiring softened, while the average workweek picked up and wage growth remained solid. The backlog of new orders slowed and vendor lead time flattened in January, as capacity utilization continued to rise.

Manufacturers were less buoyant about their future business conditions than they were in December. However producers continued to look for solid growth in shipments and new orders. Compared to last month's expectations, backlogs of new orders were expected to build more slowly and capacity utilization was expected to grow on pace with last month's outlook. Additionally, survey participants expected shorter vendor lead times than previously anticipated.

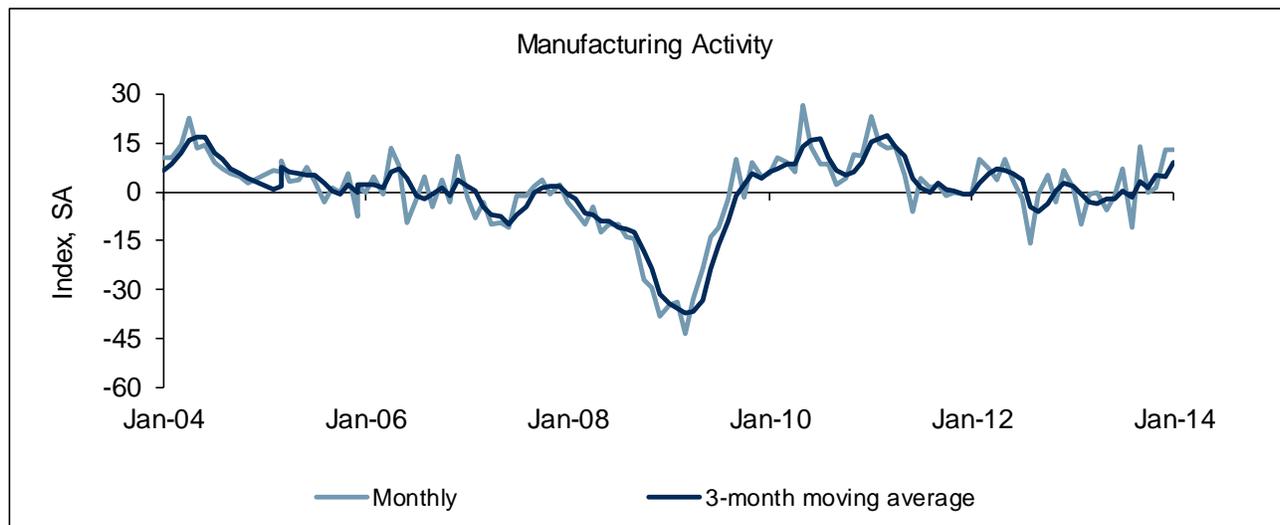
Manufacturers looked for faster growth in the average work week, with slower increases in hiring and wages. Expectations for raw materials and

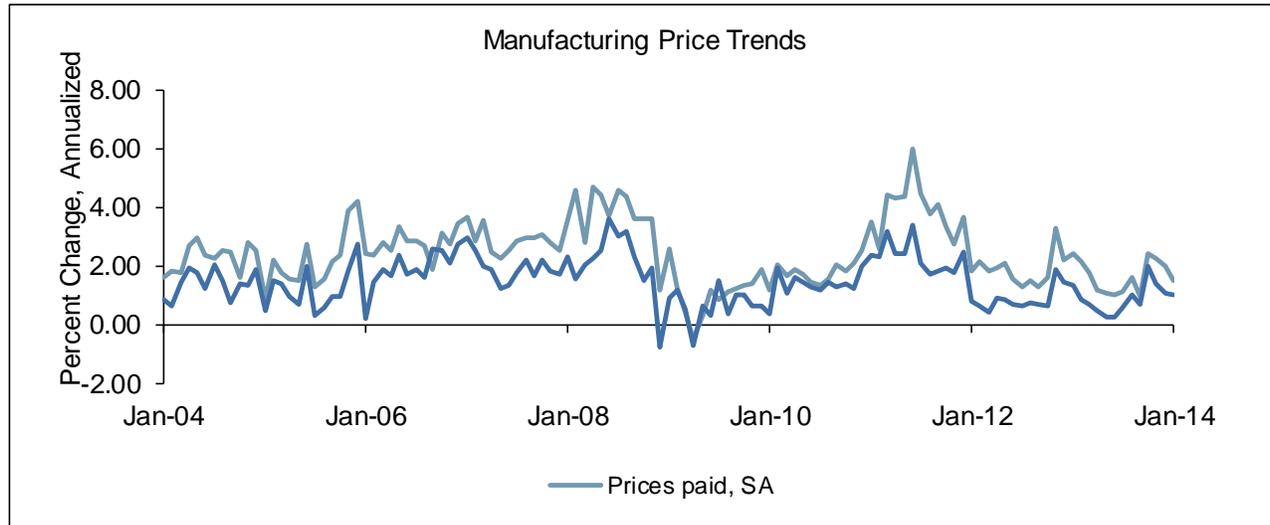
finished goods prices rose at a slower rate in January. Additionally, manufacturers expected slower growth in prices paid and prices received over the next six months compared to last month's predictions.

### Current Activity

The composite index of manufacturing continued to grow at the same pace as a month ago; with a solid reading of 13 the past two months, the indicator slipped one point. The index for new orders improved four points, and the index of shipments shed one point, with both gauges ending at a reading of 14. Manufacturing employment grew at a slower pace. At an index of 6, the January indicator dropped eight points from last month's reading of 14.

Vendor lead time was unchanged in January. The index gained four points, settling at a reading of 0. The index for backlog of orders moved to -2 from a reading of -8, and capacity utilization grew at a faster pace, with the index gaining three points from last month's reading to finish at 11. Finished goods inventories built up at a slightly faster rate this month, pushing the index to 12, and nearly





matched the December reading of 10. Raw materials inventories grew at a slower rate. That gauge slipped to 4 from 12.

**Employment**

Manufacturing employment grew at a slower rate, with the index ending the survey period at 6 compared to last month’s reading of 14. The average workweek picked up, however, moving that index up two points to end at 8, while the index for average wages gained one point from last month’s reading, moving to 11.

**Expectations**

Manufacturers anticipated slightly less robust business conditions for the six months ahead than they had expected a month ago. The index for expected shipments fell one point to end at a reading of 33. Producers also anticipated a slower rate of new orders. The January indicator fell four points, ending at 34.

Survey participants also expected backlogs to grow more slowly than their outlook of a month ago. That index shaved four points from last month’s reading to 14. Producers expected vendor lead time to increase more slowly, bringing that index to 2 from 7. Firms expected capital spending to grow at a faster rate, pushing the index to 27 from 9. The index for anticipated capacity utilization rose one point to 27.

Firms expected a slowdown in hiring in the months ahead, with the index dropping five points to settle

at 12. The index for expected average wages softened to 26 from the previous reading of 32. The average workweek index rose to 11 from 4.

**Prices**

Raw materials prices rose more slowly this month, advancing at an annualized 1.32 percent rate, compared to 1.53 percent previously. Prices of finished goods rose at a 0.87 percent annualized rate, below December’s 1.04 percent pace.

For the six months ahead, survey respondents expected input prices would rise more slowly, at an annualized 1.64 percent rate, following December’s expectation for 2.05 percent growth. Finished goods prices were expected to slow to a 0.82 percent annualized rate, compared to the previous expectation for 1.07 percent growth.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Jan-14	Dec-13	Nov-13	Jan-14	Dec-13	Nov-13
Fifth District Manufacturing Index <sup>3</sup>	12	13	13	--	--	--
<b>Company Conditions</b>						
Shipments	14	15	16	33	34	37
Volume of New Orders	14	10	15	30	34	33
Backlog of Orders	-2	-8	-1	14	18	11
Capacity Utilization	11	8	0	27	26	20
Vendor Lead-time	0	-4	8	2	7	1
Number of Employees	6	14	6	12	17	16
Average Workweek	8	6	12	11	4	2
Wages	11	10	15	26	32	31
Capital Expenditures	--	--	--	27	9	23
<b>Inventory Levels</b>						
Finished Goods Inventories	12	10	13	--	--	--
Raw Materials Inventories	4	12	13	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	1.32	1.53	1.97	1.64	2.05	1.75
Prices Received	0.87	1.04	1.08	0.82	1.07	1.22

**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 103 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.

