

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Growth Remained Sluggish; Expectations Warmed

Overview

Fifth District manufacturing activity remained soft in March, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders declined. Manufacturing employment remained flat, while the average workweek edged up and wages rose moderately.

Manufacturers' expectations moved back in line with January's expectations. A participant commented that weather has "wreaked havoc" on demand for the past two months, but he anticipated that his company will be very busy once the weather improves. Compared to last month's outlook, shipments and new orders were expected to grow more quickly. Additionally, manufacturers looked for faster growth in backlogs and capacity utilization. Firms anticipated slightly longer vendor lead times in the six months ahead. Survey participants also expected faster growth in the number of employees along with strong growth in wages and a pickup in the average workweek.

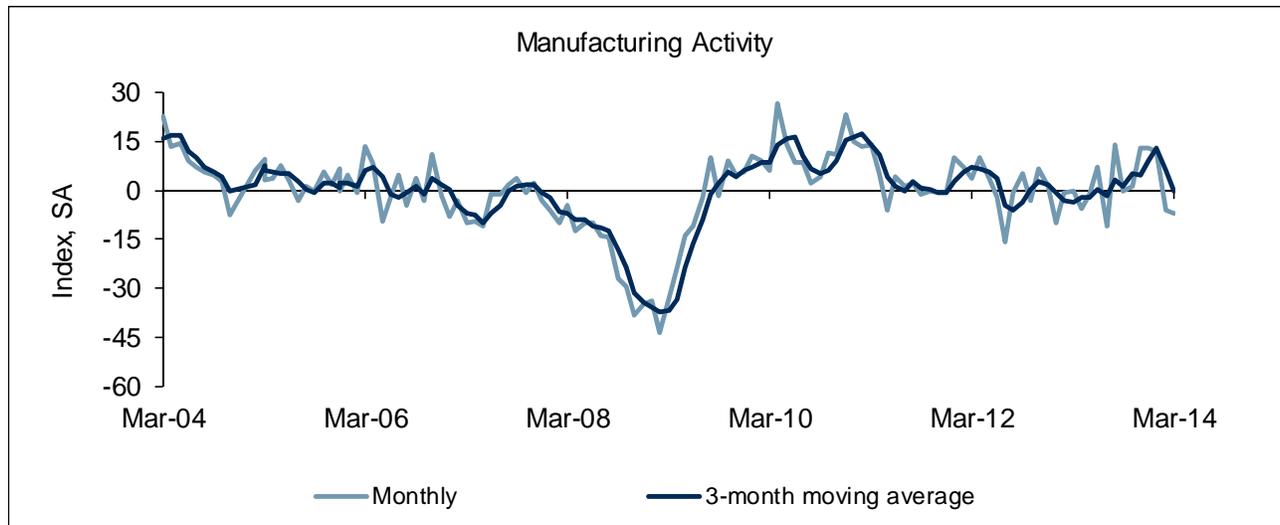
Raw materials and finished goods prices rose at a slower pace in March compared to last month. Manufacturers expected faster growth in prices paid and prices received over the next six months, although their outlook was below February's expectations.

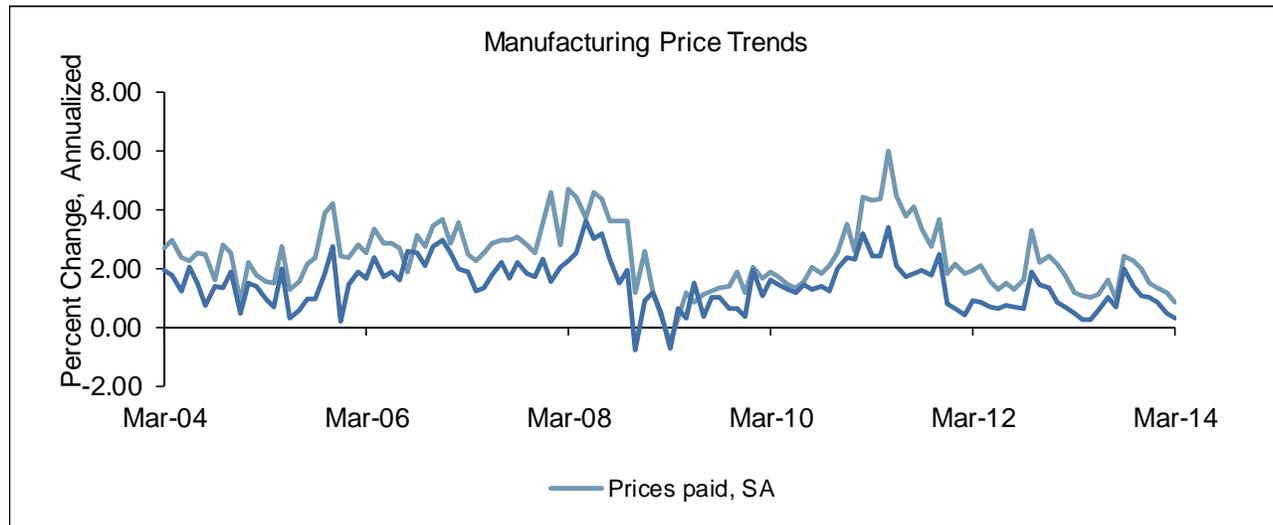
Current Activity

The composite index of manufacturing dipped to a reading of -7 following last month's reading of -6. The index for shipments slipped three points to -9, while the index for new orders remained at an indicator of -9. Manufacturing employment remained flat the past two months.

The index for backlog of orders slowed four points from last month's reading. The capacity utilization index also slipped, ending at -14. Vendor lead time lengthened, moving the index to 6 from a reading of 0.

Finished goods inventories built up at nearly the same rate as a month ago. Raw materials inventories grew more slowly compared to last month.





As weather improved slightly, a participant stated that his company was trying to catch up from weather-related plant shutdowns by adding employees and increasing capacity utilization.

Employment

Manufacturing employment remained flat this month. The average workweek edged up slightly, however; the index gained seven points moving to a reading of 2. The index for average wages slowed somewhat compared to a month ago, ending at 10.

Expectations

Manufacturers anticipated better business conditions in the next six months. They described business as slow and steady, with hopes of robust pipelines to help catch up, along with positive customer mindsets. The index for expected shipments advanced to 31 from the previous reading of 17, on pace with January’s outlook. Producers also anticipated strengthening in new orders; at an index of 30, the March indicator doubled from last month’s reading.

Survey participants also expected backlogs to grow in the next six months. That index gained 14 points from last month’s flat reading. Producers expected vendor lead time to remain on pace with this month, holding the index at a reading of six. Firms looked for capital spending to grow quickly, pushing the index to 18 from 9. In addition, the index for expected capacity utilization rose 17 points to 29.

Firms looked for a pickup in hiring in the months ahead, with the employment gauge moving up 10 points to a reading of 22. The index for expected average wages edged up to 28 from the previous reading of 26, while the average workweek index rose to 6 from 3.

Prices

Prices of raw materials rose at a 0.85 percent annualized rate, somewhat below February’s 1.19 percent rate. Finished goods prices also rose more slowly this month, advancing at an annualized 0.32 percent rate.

For the six months ahead, survey respondents expected input prices would rise more slowly. They looked for an annualized 1.81 percent rate, following their February’s expectation for 2.25 percent growth. Finished goods prices were expected to rise at an annualized 1.15 percent rate.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Mar-14	Feb-14	Jan-14	Mar-14	Feb-14	Jan-14
Fifth District Manufacturing Index ³	-7	-6	12	--	--	--
Company Conditions						
Shipments	-9	-6	14	31	17	33
Volume of New Orders	-9	-9	14	30	15	30
Backlog of Orders	-13	-8	-2	14	0	14
Capacity Utilization	-14	-7	11	29	12	27
Vendor Lead-time	6	0	0	6	2	2
Number of Employees	0	0	6	22	12	12
Average Workweek	2	-5	8	6	3	11
Wages	10	14	11	28	26	26
Capital Expenditures	--	--	--	18	9	27
Inventory Levels						
Finished Goods Inventories	12	13	12	--	--	--
Raw Materials Inventories	11	17	4	--	--	--
Price Trends⁴						
Prices Paid	0.85	1.19	1.32	1.81	2.25	1.64
Prices Received	0.32	0.47	0.87	1.15	1.39	0.82

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 91 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.