

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

### *Manufacturing Sector Activity Improved; Shipments, New Orders, and Hiring Increased*

#### Overview

Fifth District manufacturing activity improved in April, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders increased. Employment rose, while wages advanced at a slower rate. The average workweek was unchanged from a month ago.

Manufacturers looked for stronger business conditions during the next six months, although expectations were below last month's outlook. Compared to last month's outlook, survey participants anticipated somewhat slower growth in shipments, new orders, and capacity utilization. Manufacturers also looked for slower growth in employment and wages. In addition, expectations were for little change in the average workweek. They predicted vendor lead times would edge up at about the same pace as March's outlook.

Current prices of raw materials and finished goods rose at a slower pace in April compared to last month. Manufacturers expected faster growth in

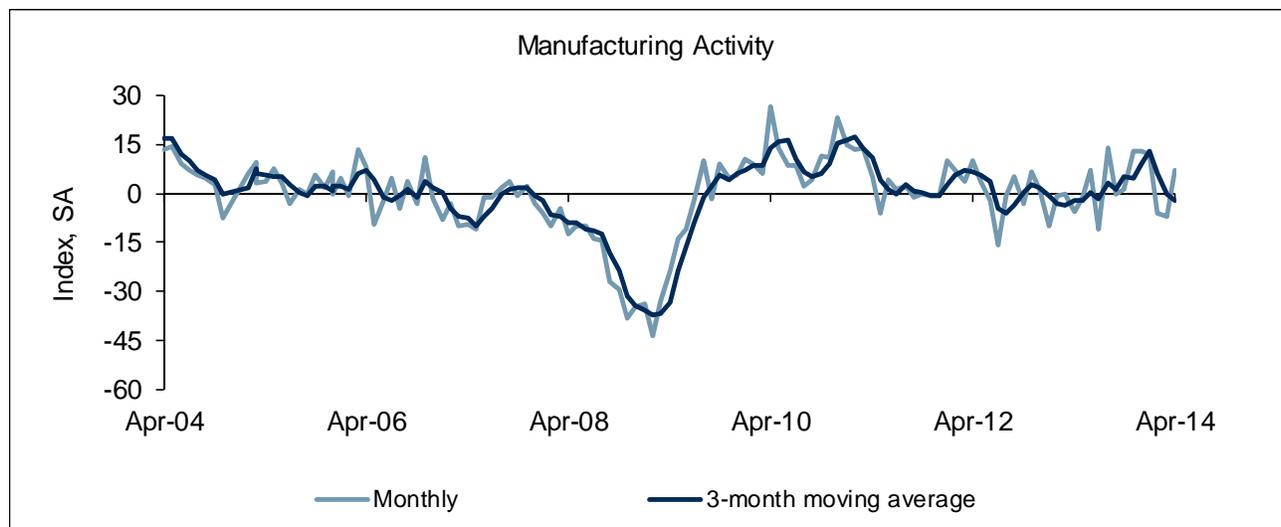
prices paid and prices received over the next six months, although their outlook was below last month's predictions.

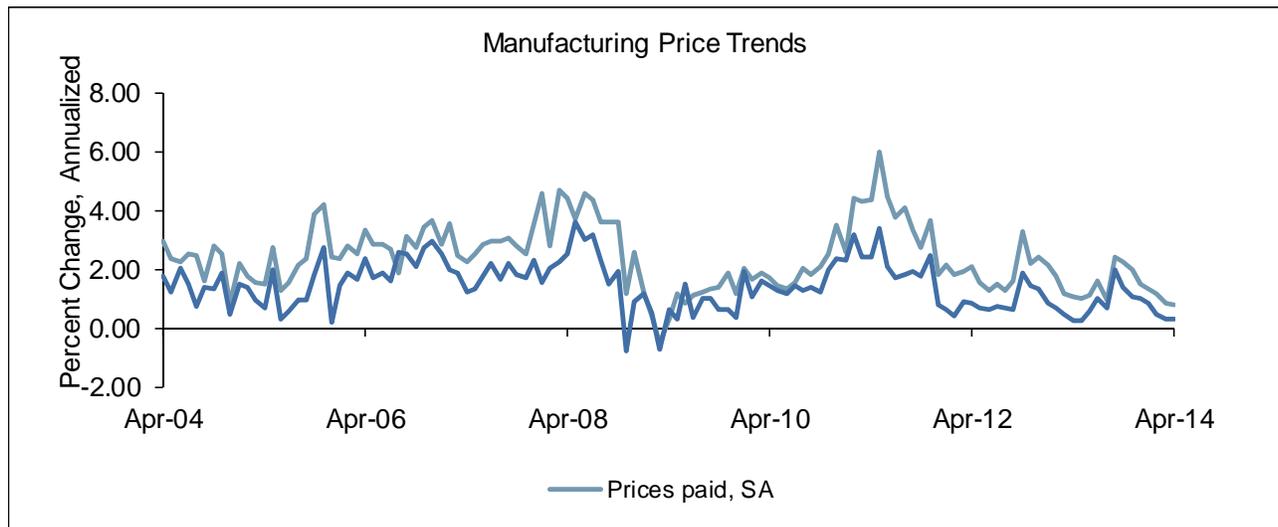
#### Current Activity

The composite index for manufacturing strengthened by 14 points to a reading of 7. The index for new orders increased 19 points and the index for shipments rose 15 points. Those gauges ended at readings of 10 and 6, respectively. In addition, the index for the number of employees gained four points to end at a reading of 4.

The index for order backlogs improved by four points from last month's reading to -9. The capacity utilization index moved to a flat reading of 1 from -14. Vendor lead time shortened slightly, shifting the index to 3 from a reading of 6.

Finished goods inventories built up at a slightly faster pace compared to a month ago. Raw materials inventories grew more slowly compared to last month. Those indexes finished at 15 and 7, respectively.





### Employment

Manufacturing employment picked up this month, moving the index to 4 from 0. The average workweek grew at the same rate as a month ago; the index maintained a reading of 2. However, average wages slowed somewhat compared to a month ago, with that index ending four points below the previous month at 6.

### Expectations

Producers anticipated better business conditions in the next six months. They expected shipments and the volume of new orders would grow more quickly during the next six months, although at a slower pace than last month's expectations. The indexes for expected shipments and new orders ended at readings of 22 and 21, compared to the month earlier indexes of 31 and 30.

Survey participants expected backlogs to build at a slower pace than their outlook of a month ago. That index shaved 13 points from last month's reading of 14. Producers expected vendor lead time to nearly match March's outlook; that index slipped to 5 from 6. Firms expected capital spending to grow at a slightly slower rate; the index shed two points to finish at 16. The index for anticipated capacity utilization lost 13 points to end at a reading of 16.

Firms looked for slower growth in hiring in the months ahead compared to last month's outlook, with the employment gauge moving down eight points to a reading of 14. The index for expected

average wages softened by four points to a reading of 24, and the indicator average workweek index ticked up to 7 from 6.

### Prices

Raw materials prices rose more slowly this month, advancing at an annualized 0.78 percent rate, compared to 0.85 percent previously. Prices of finished goods rose at a 0.30 percent annualized rate, slightly below March's 0.32 percent pace.

For the six months ahead, survey respondents expected input prices would rise more slowly than they anticipated in March. They looked for an annualized 1.32 percent rate, following their previous month's expectation for 1.81 percent growth. Finished goods prices were expected to rise at a 1.00 percent annualized rate, somewhat more slowly than last month's outlook.

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<b>Business Activity Indexes<sup>1</sup></b>						
<b>General Business Assessment</b>	<b>Current Conditions</b>			<b>Expectations<sup>2</sup></b>		
	<b>Apr-14</b>	<b>Mar-14</b>	<b>Feb-14</b>	<b>Apr-14</b>	<b>Mar-14</b>	<b>Feb-14</b>
Fifth District Manufacturing Index <sup>3</sup>	7	-7	-6	--	--	--
<b>Company Conditions</b>						
Shipments	6	-9	-6	22	31	17
Volume of New Orders	10	-9	-9	21	30	15
Backlog of Orders	-9	-13	-8	1	14	0
Capacity Utilization	1	-14	-7	16	29	12
Vendor Lead-time	3	6	0	5	6	2
Number of Employees	4	0	0	14	22	12
Average Workweek	2	2	-5	7	6	3
Wages	6	10	14	24	28	26
Capital Expenditures	--	--	--	16	18	9
<b>Inventory Levels</b>						
Finished Goods Inventories	15	12	13	--	--	--
Raw Materials Inventories	7	11	17	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	0.78	0.85	1.19	1.32	1.81	2.25
Prices Received	0.30	0.32	0.47	1.00	1.15	1.39

**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 113 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 as percent change, annualized.