

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

### *Manufacturing Sector Activity Increased Mildly; Hiring Continued to Strengthen*

#### Overview

Fifth District manufacturing activity increased at a steady pace of growth, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments rose, although new orders softened. Manufacturing employment firmed, and average wages increased sharply. The average workweek increased at about last month's pace.

Manufacturers' expectations were generally for improved business conditions. Despite a slightly weaker outlook for shipments, producers anticipated solid growth in new orders and rising backlogs. Firms expected capacity utilization to grow at a faster pace compared to last month's expectations.

Survey participants looked for only slightly slower growth in the number of employees and the average workweek during the next six months. In contrast, they expected a pick up in wages. Expectations were for slightly longer vendor lead times.

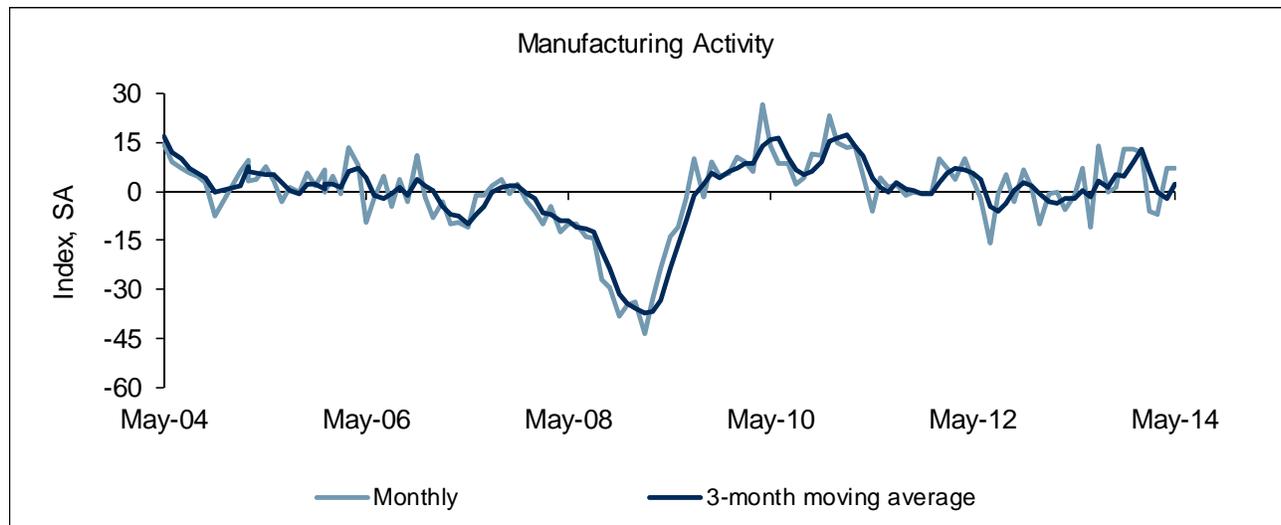
Current prices of raw materials and finished goods rose at a faster pace in May compared to last month. Manufacturers expected faster growth in prices paid and prices received over the next six months.

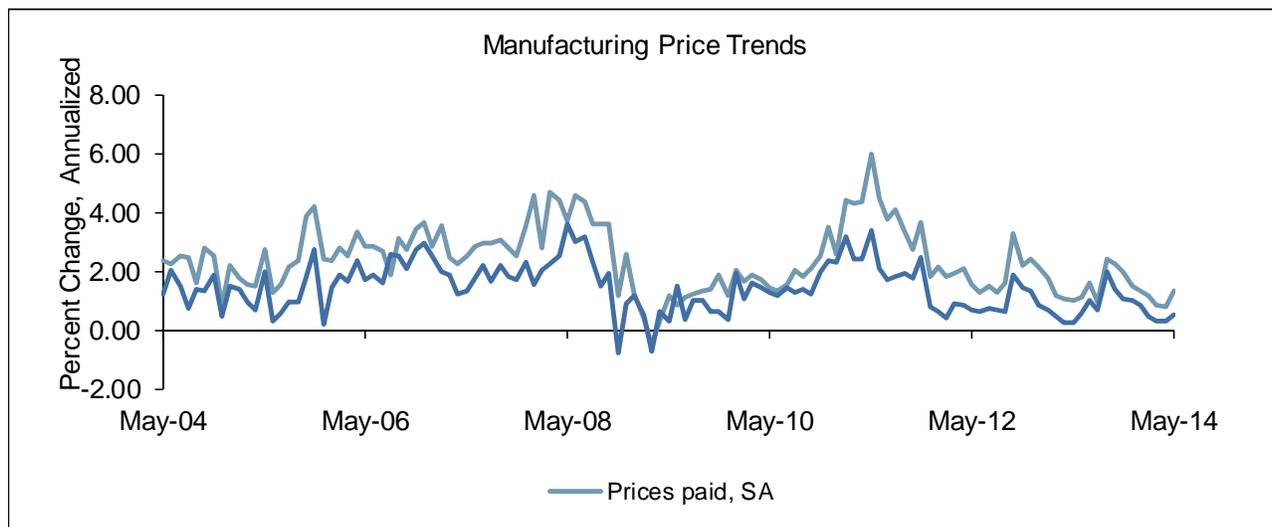
#### Current Activity

Overall, manufacturing conditions improved. The composite index for manufacturing held steady at a reading of 7 during the past two months. The index for shipments gained four points, ending at 10, while the index for new orders softened seven points, finishing at a reading of 3. Manufacturing employment picked up this month; the May indicator advanced six points to a reading of 10.

Vendor lead time lengthened, moving the index to 5 from a reading of 3, and the backlog of orders flattened to 1 from -9. The capacity utilization gauge slipped three points this month ending at -2.

Finished goods inventories built up at nearly the same pace as a month earlier. The index shed a point, ending at 14. Raw materials inventories grew more quickly. That gauge moved to 9 from 7.





**Employment**

Manufacturing employment continued to strengthen this month, with the index taking on six points to finish at 10. The average workweek grew only slightly faster this month; that gauge edged up one point to 3. The index for average wages gained 16 points, moving to 22.

**Expectations**

Producers remained upbeat about business conditions for the next six months. Expectations were for solid growth in new orders; the May indicator moved up one point from the April reading to 22. However, survey participants expected shipments to slow, softening the index to 17 from 22.

Manufacturers expected a faster buildup of backlogs ahead. The May indicator gained seven points, ending at 8. Firms also expected capital spending to pick up, pushing that index to 19. The index for anticipated capacity utilization gained six points to end at a reading of 22.

Survey participants looked for slightly slower hiring in the months ahead; the employment gauge lost two points to finish at a reading of 12. The average workweek index moved to 6 from 7. Expectations for average wage growth remained strong. The index added four points in May to end at 28.

**Prices**

Prices of raw materials rose at a 1.36 percent annualized rate, well above April's 0.78 percent rate. Finished goods prices also rose more quickly this month, advancing at an annualized 0.56 percent rate compared to 0.30 percent in April.

For the six months ahead, survey respondents expected input prices would rise more quickly, at an annualized 1.69 percent rate. Finished goods prices were expected to rise at an annualized 1.01 percent rate. In April, expectations were for 1.32 percent and 1.00 percent, respectively.

Contact

**Jeannette Plamp**

Economic Analyst  
 Research Dept. / Regional Economics  
 Federal Reserve Bank of Richmond

Richmond Office

Ph: 804.697.8152 • Fax: 804.697.8123

[Jeannette.Plamp@rich.frb.org](mailto:Jeannette.Plamp@rich.frb.org)  
[www.richmondfed.org](http://www.richmondfed.org)

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	May-14	Apr-14	Mar-14	May-14	Apr-14	Mar-14
Fifth District Manufacturing Index <sup>3</sup>	7	7	-7	--	--	--
<b>Company Conditions</b>						
Shipments	10	6	-9	17	22	31
Volume of New Orders	3	10	-9	22	21	30
Backlog of Orders	1	-9	-13	8	1	14
Capacity Utilization	-2	1	-14	22	16	29
Vendor Lead-time	5	3	6	8	5	6
Number of Employees	10	4	0	12	14	22
Average Workweek	3	2	2	6	7	6
Wages	22	6	10	28	24	28
Capital Expenditures	--	--	--	19	16	18
<b>Inventory Levels</b>						
Finished Goods Inventories	14	15	12	--	--	--
Raw Materials Inventories	9	7	11	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	1.36	0.78	0.85	1.69	1.32	1.81
Prices Received	0.56	0.30	0.32	1.01	1.00	1.15

**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 109 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.