

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Sector Activity Grew Mildly; New Orders Rose Slightly, Hiring Slowed*

### Overview

Fifth District manufacturing activity grew mildly in June, according to the most recent survey by the Federal Reserve Bank of Richmond. The volume of new orders rose slightly, while shipments softened. Manufacturing employment weakened compared to last month, while average wage growth eased and the average workweek lengthened.

Manufacturers looked for better business conditions in the next six months. Producers anticipated a higher volume of new orders and shipments. Additionally, firms anticipated greater backlogs of new orders and predicted capacity utilization would increase. Expectations were for longer vendor lead times in the six months ahead.

Survey participants also planned more hiring, along with strong growth in wages and a pickup in the average workweek in the next six months.

Prices of raw materials and finished goods rose at a slower pace in June compared to last month. However, firms expected faster growth in prices

paid and prices received over the next six months than they anticipated a month ago.

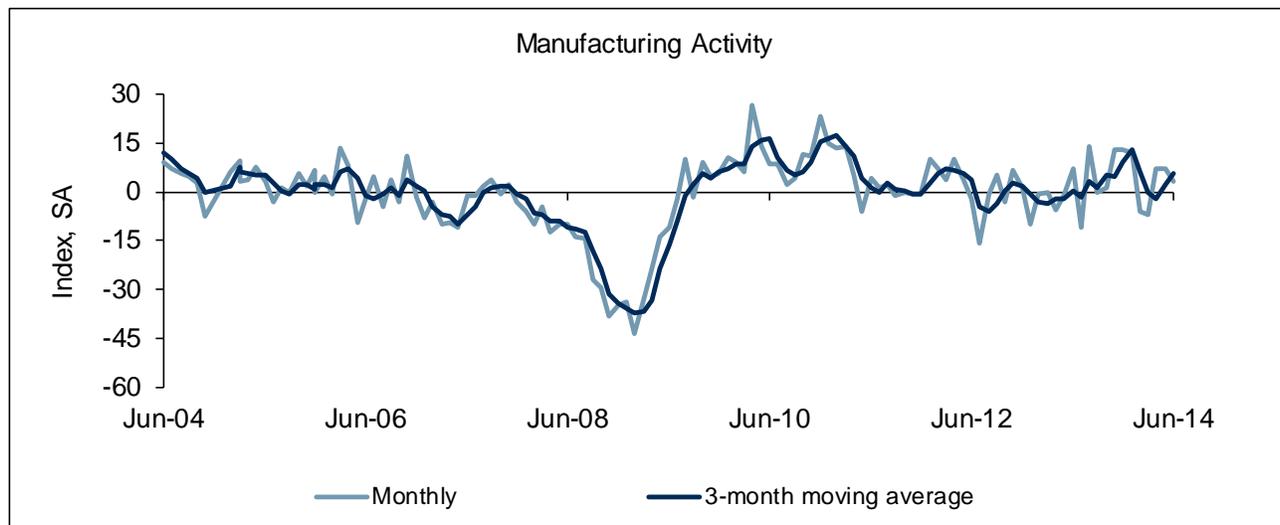
### Current Activity

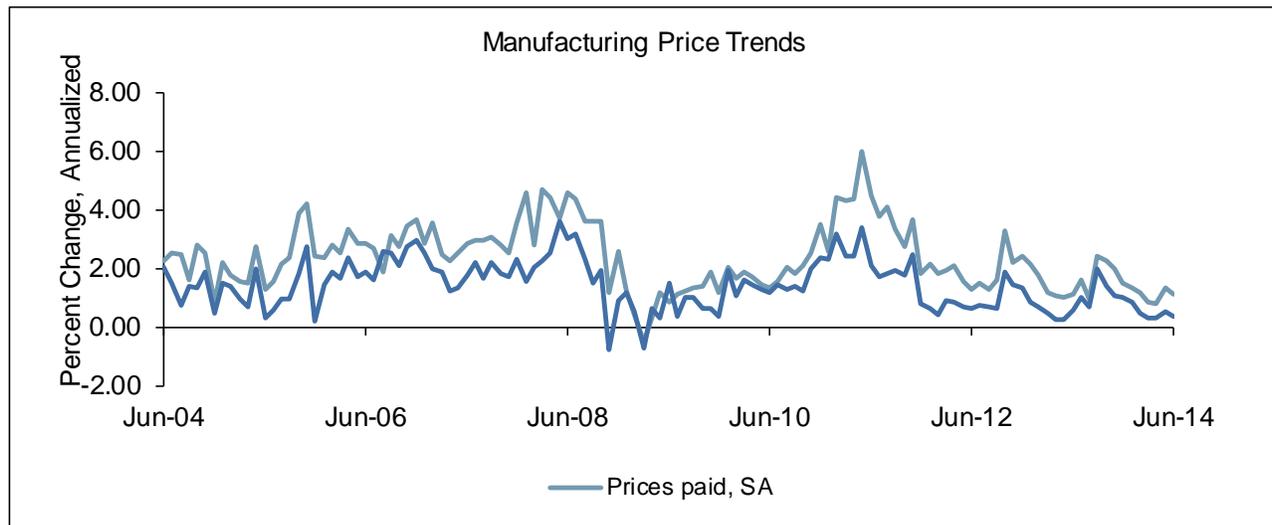
Overall, manufacturing conditions softened slightly. The composite index for manufacturing moved to a reading of 3 following last month's reading of 7. The index for shipments fell eight points, ending at 2, while the index for new orders gained one point, finishing at a reading of 4. Manufacturing hiring slowed this month. At an index of 3, the June indicator dropped seven points from last month's reading of 10.

Vendor lead time flattened, moving the index to 1, and the indicator for the backlog of orders decreased to -3 from 1. The capacity utilization gauge climbed ten points this month ending at 8. Finished goods inventories grew at a slower pace. The index fell ten points, ending at 4. Raw materials inventories built up more quickly. That gauge moved to 14 from 9.

### Employment

Manufacturing employment weakened slightly, with





the index ending the survey period at 3 compared to last month's reading of 10. The average workweek picked up, moving that index up four points to end at 7, while the index for average wages dropped 10 points, moving to 12.

**Expectations**

Producers were optimistic about their future business conditions. The index for expected shipments ticked up three points from last month's reading, finishing at 20. Firms also anticipated a faster rate of new orders. The June indicator edged up four points, ending at 26.

Survey participants expected backlogs to grow more quickly during the next six months. The index added eight points to last month's outlook, to finish at a reading of 16. Producers anticipated vendor lead time would increase at the same pace as a month ago; the index remained at 8. The index for expected capital spending rose more slowly, slipping to 16 from the previous reading of 19.

Firms continued to look for a pickup in hiring in the months ahead. The outlook index for employment settled at 10, two points below the May indicator. The index for expected average wages remained at a reading of 28. Manufacturers anticipated the average workweek would rise at a faster pace. That index finished at 11, following a previous reading of 6.

**Prices**

Prices of raw materials rose more slowly than a month ago, advancing at an annualized 1.11 percent rate, compared to a 1.36 percent rate a month ago. Prices of finished goods rose at a 0.37 percent annualized rate, below May's 0.56 percent pace.

For the six months ahead, survey respondents expected input prices would rise more quickly, at an annualized 1.86 percent rate, following May's expectation for 1.69 percent growth. Finished goods prices were expected to rise at an annualized 1.15 percent rate, compared to the previous expectation for 1.01 percent growth.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Jun-14	May-14	Apr-14	Jun-14	May-14	Apr-14
Fifth District Manufacturing Index <sup>3</sup>	3	7	7	--	--	--
Company Conditions						
Shipments	2	10	6	20	17	22
Volume of New Orders	4	3	10	26	22	21
Backlog of Orders	-3	1	-9	16	8	1
Capacity Utilization	8	-2	1	19	22	16
Vendor Lead-time	1	5	3	8	8	5
Number of Employees	3	10	4	10	12	14
Average Workweek	7	3	2	11	6	7
Wages	12	22	6	28	28	24
Capital Expenditures	--	--	--	16	19	16
Inventory Levels						
Finished Goods Inventories	4	14	15	--	--	--
Raw Materials Inventories	14	9	7	--	--	--
Price Trends <sup>4</sup>						
Prices Paid	1.11	1.36	0.78	1.86	1.69	1.32
Prices Received	0.37	0.56	0.30	1.15	1.01	1.00

**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 105 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.