

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Sector Activity Grew Moderately; Employment Improved, Average Wages Edged Down*

### Overview

Fifth District manufacturing activity continued to grow at a moderate pace in September, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders picked up this month. Manufacturing employment also strengthened this month, while average wages rose at a slower pace and the average workweek lengthened.

Manufacturers remained optimistic about future business conditions. Survey participants expected faster growth in shipments and in the volume of new orders in the six months ahead. Producers looked for increased capacity utilization and anticipated rising backlogs. Expectations were for longer vendor lead times.

Survey participants anticipated steady growth in the number of employees and the average workweek during the next six months. Additionally, they expected faster growth in wages.

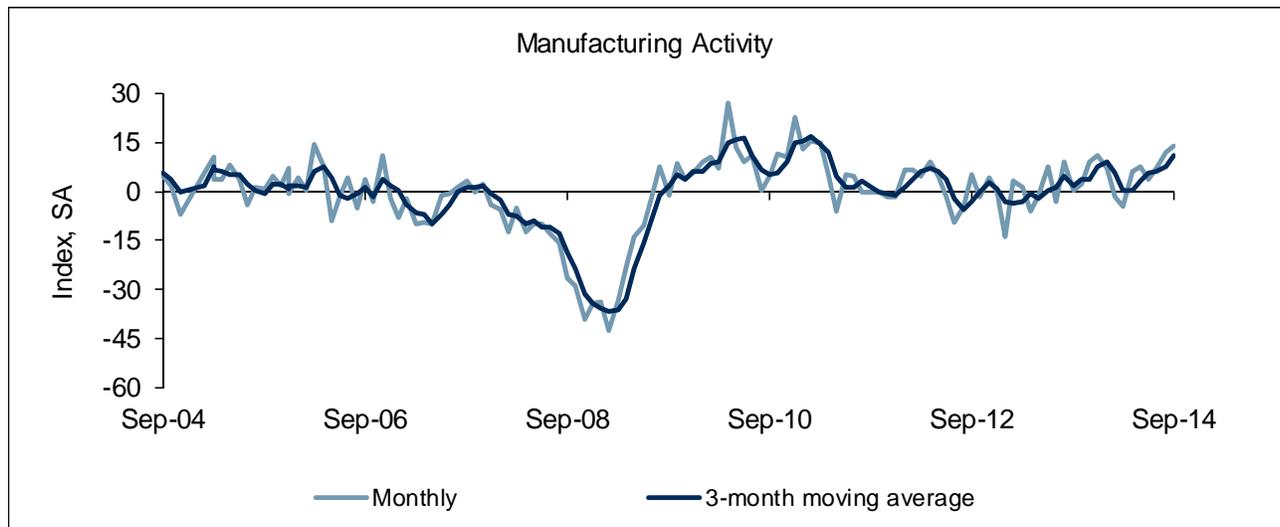
Prices of raw materials and finished goods rose at faster pace in September compared to last month.

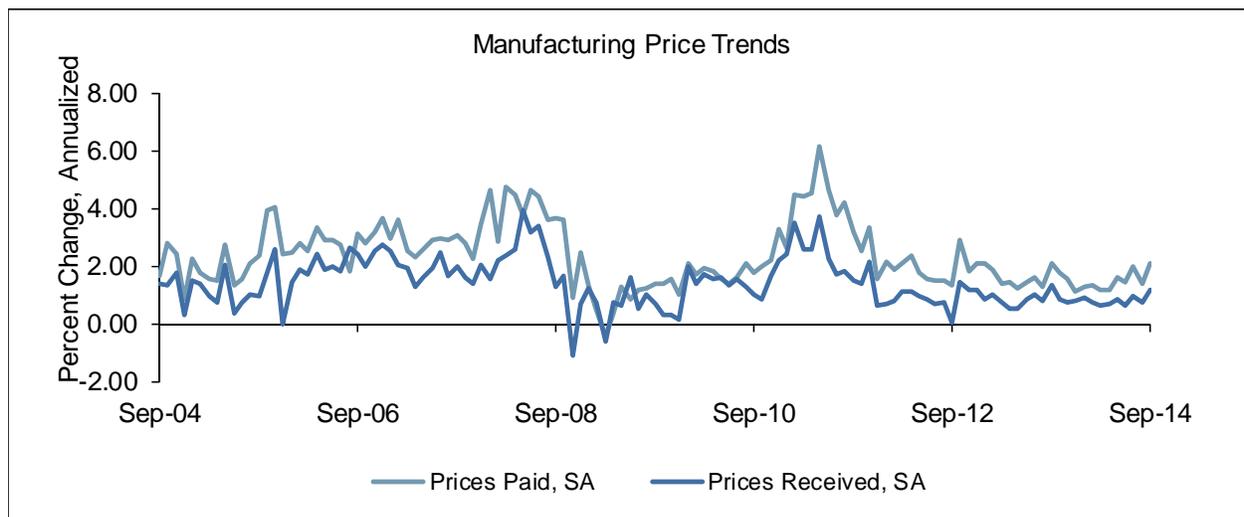
For the six months ahead, manufacturers expected slower growth in prices paid, and anticipated faster growth in prices received.

### Current Activity

Overall, manufacturing conditions strengthened in September. The composite index for manufacturing moved to a reading of 14 following last month's reading of 12. The index for shipments edged up one point, ending at 11, while the index for new orders also gained one point, finishing at a reading of 14. Manufacturing employment strengthened this month. At an index of 17, the September indicator gained six points from last month's reading of 11.

Backlogs rose at a slower pace this month; the index settled at a reading of 6. Additionally, capacity utilization grew at a slower pace, moving the index down four points ending at 13. Vendor lead time shortened, moving the index to 10 from a reading of 16 last month. Finished goods inventories rose at a faster pace compared to a month ago. The index gained seven points, ending at 23. Raw materials inventories increased at a





faster rate compared to last month. That gauge moved to 20 from 17.

**Employment**

Manufacturing employment picked up this month; the September index advanced six points ending at 17. The average workweek lengthened, moving the index up two points to end at 10. However, average wages slowed somewhat compared to a month ago, with that index ending two points below the previous month at 9.

**Expectations**

Producers remained positive about business conditions for the six months ahead. They expected solid growth in shipments and in the volume of new orders. The indexes for expected shipments and new orders ended at readings of 41 and 37, respectively, slightly below their outlook of a month ago.

Survey participants expected backlogs would rise at a faster pace in the next six months. However, that outlook index finished 18 points below last month's gauge at a reading of 11. Manufacturers expected vendor lead time would lengthen; the outlook index added four points finishing at 12. Firms anticipated capital spending would grow at a faster rate; the expected capital spending index climbed to 38 from last month's reading of 27. The index for future capacity utilization slipped nine points to end at a reading of 26.

Firms looked for steady growth in hiring in the months ahead. The index for expected

employment slipped one point from last month's outlook to settle at 17. The index for expected average wages gained seven points to end at 35, while the index for the expected average workweek remained at a reading of 10.

**Prices**

Prices of raw materials rose more quickly this month, advancing at an annualized 2.10 percent rate, compared to a 1.39 percent rate previously. Prices of finished goods rose at a 1.17 percent annualized rate, above August's 0.76 percent pace.

For the six months ahead, survey respondents expected input prices would rise more slowly, at an annualized 2.00 percent rate, following August's expectation for 2.05 percent growth. Finished goods prices were expected to rise at an annualized 1.19 percent rate, compared to the previous expectation for 1.34 percent growth.

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<b>Business Activity Indexes<sup>1,4</sup></b>						
<b>General Business Assessment</b>	<b>Current Conditions</b>			<b>Expectations<sup>2</sup></b>		
	<b>Sep -14</b>	<b>Aug-14</b>	<b>Jul-14</b>	<b>Sep-14</b>	<b>Aug-14</b>	<b>Jul-14</b>
Fifth District Manufacturing Index <sup>3</sup>	14	12	7	--	--	--
<b>Company Conditions</b>						
Shipments	11	10	3	41	43	36
Volume of New Orders	14	13	5	37	47	34
Backlog of Orders	6	15	0	11	29	15
Capacity Utilization	13	17	4	26	35	29
Vendor Lead-time	10	16	12	12	8	6
Number of Employees	17	11	13	17	18	19
Average Workweek	10	8	3	10	10	10
Wages	9	11	16	35	28	23
Capital Expenditures	--	--	--	38	27	19
<b>Inventory Levels</b>						
Finished Goods Inventories	23	16	12	--	--	--
Raw Materials Inventories	20	17	21	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	2.10	1.39	1.99	2.00	2.05	1.89
Prices Received	1.17	0.76	0.99	1.19	1.34	1.04

**Technical Notes:**

- 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 88 firms.
- Expectations refer to the time period six months out from the survey period.
- 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.
- Price changes are expressed as percent change, annualized.