

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Expanded Modestly; Shipments and New Orders Edged Up

Overview

Fifth District manufacturing activity grew modestly in December, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders edged up. Manufacturing employment grew at a faster pace this month, while average wages and the average workweek grew at a slightly slower pace than a month ago.

Producers anticipated improved business conditions during the next six months.

Manufacturers expected faster growth in shipments and in the volume of new orders. Additionally, survey participants expected order backlogs to grow and anticipated increased capacity utilization. Expectations were for only slightly longer vendor lead times.

Firms expected faster growth in the number of employees and looked for average wages to grow more quickly in the months ahead. In contrast, survey participants looked for continued mild growth in the average workweek.

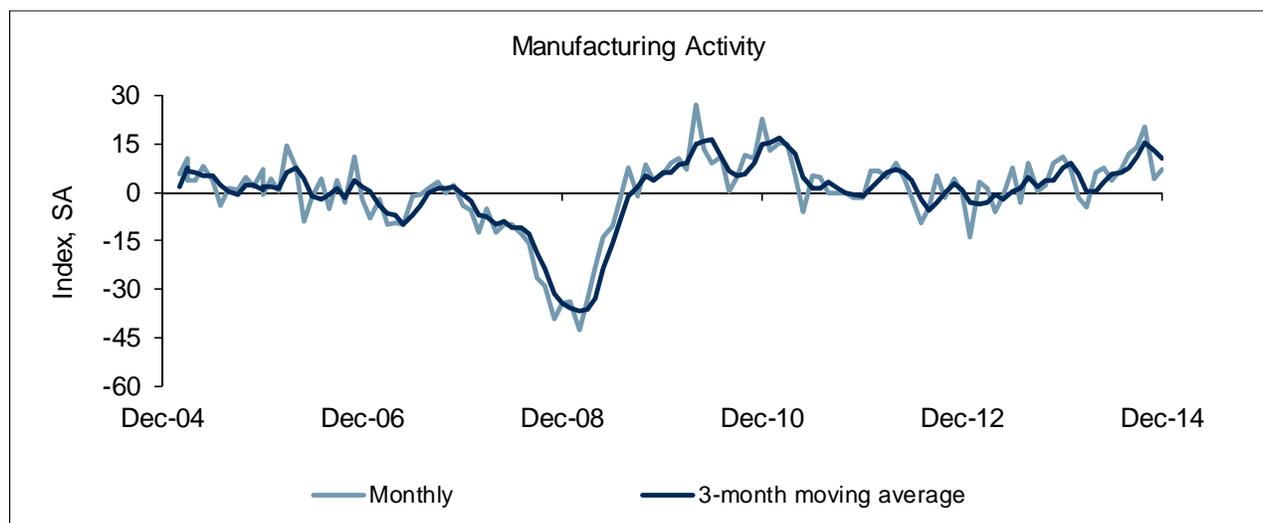
Prices of raw materials and finished goods rose at a slower pace in December compared to last

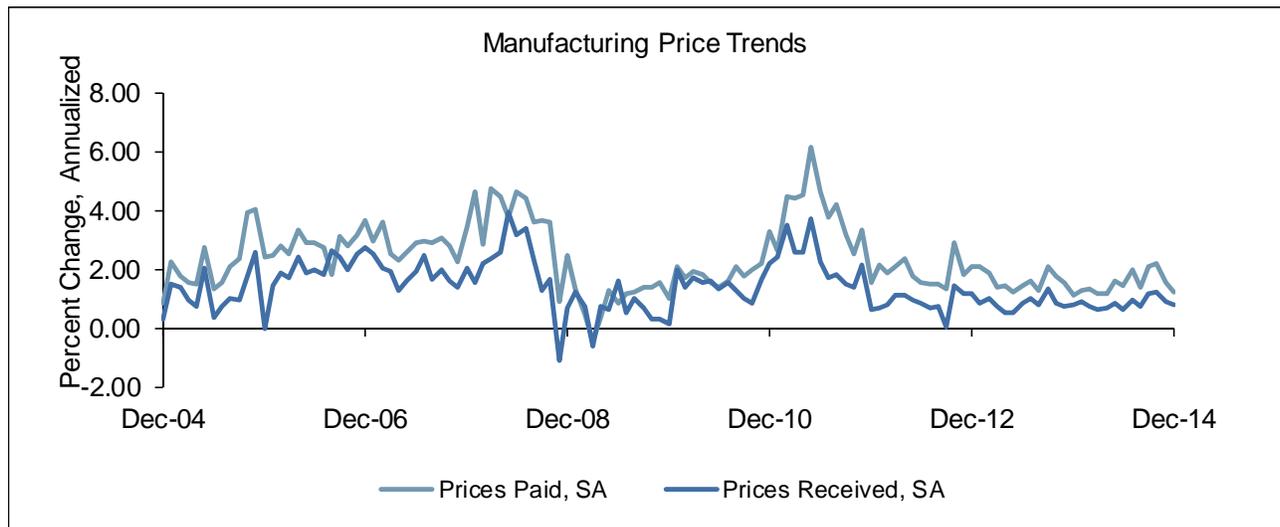
month. Manufacturers expected faster growth in prices paid in the months ahead. However, producers expected little change in prices received over the next six months.

Current Activity

Overall, manufacturing activity grew modestly in December. The composite index for manufacturing gained three points from a month earlier to finish at a reading of 7. The index for shipments gained four points and the new orders index advanced three points, finishing at readings of 5 and 4, respectively. Manufacturing employment grew more quickly this month. At an index of 13, the December indicator gained three points from last month's reading of 10.

Capacity utilization decreased this month. The index fell 18 points from November's reading to finish at an index of -5. Additionally, backlogs softened further this month, pulling the index down three points to finish at -5. Vendor lead time lengthened at a slightly slower pace, moving the index down five points to a reading of 2. Finished goods inventories rose more quickly compared to a month ago. That gauge gained two points to end at





22. Raw materials inventories rose at a slightly slower rate than a month ago. The index moved down three points to end at 20.

Employment

Manufacturing employment grew at a slightly faster pace this month. The index gained three points to end the survey period at 13. However, average wages grew at a slower rate and the average workweek also increased at a slightly slower pace this month. The indexes finished at readings of 8 and 4, respectively.

Expectations

Manufacturers anticipated better business conditions in the next six months. They looked for steady growth in shipments and in the volume of new orders. The expected shipments index strengthened by four points to a reading of 38, while the index for expected new orders moved down two points to a reading of 34.

Survey participants expected backlogs would build more quickly in the months ahead. That outlook index gained two points to finish at a reading of 14. Firms anticipated vendor lead times would lengthen slightly in the months ahead. That outlook index added one point to finish at 3. Producers expected capital spending would grow more quickly. The index gained 11 points to finish at 28. The index for future capacity utilization gained 10 points this month to end at a reading of 31.

Firms looked for an increase in hiring in the months ahead, with the expectations index gaining one point to end at 23. The index for expected average wages remained solid, moving up two points to finish at 26, while the expected average workweek gauge softened slightly to a reading of 3.

Prices

Prices of raw materials rose more slowly this month, advancing at an annualized 1.26 percent rate, compared to the previous 1.57 percent rate. Prices of finished goods rose at a 0.83 percent annualized rate, below November's 0.90 percent pace.

For the six months ahead, survey respondents expected input prices would rise more quickly, at an annualized 1.46 percent rate. Finished goods prices were expected to rise at an annualized 0.81 percent rate, compared to the previous month's expectation for 1.12 percent growth.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Dec -14	Nov-14	Oct-14	Dec-14	Nov-14	Oct-14
Fifth District Manufacturing Index ³	7	4	20	--	--	--
Company Conditions						
Shipments	5	1	23	38	34	43
Volume of New Orders	4	1	22	34	36	41
Backlog of Orders	-5	-2	9	14	12	17
Capacity Utilization	-5	13	13	31	21	32
Vendor Lead-time	2	7	12	3	2	-1
Number of Employees	13	10	14	23	22	18
Average Workweek	4	5	9	3	9	9
Wages	8	15	11	26	24	26
Capital Expenditures	--	--	--	28	17	25
Inventory Levels						
Finished Goods Inventories	22	20	15	--	--	--
Raw Materials Inventories	20	23	19	--	--	--
Price Trends⁴						
Prices Paid	1.26	1.57	2.22	1.46	2.05	1.90
Prices Received	0.83	0.90	1.23	0.81	1.12	1.46

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 100 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 as percent change, annualized.