

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Sector Expanded Modestly; New Orders Remained Steady, Capacity Utilization Increased*

### Overview

Fifth District manufacturing activity expanded at a modest pace in January, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments increased at a faster pace this month, while the volume of new orders remained steady. Manufacturing employment and average wages grew at a slower pace this month. However, the average workweek grew more quickly.

Manufacturers were optimistic about future business conditions. Firms expected faster growth in shipments and new orders in the six months ahead. Additionally, survey participants expected order backlogs to increase and anticipated faster growth in capacity utilization. Expectations were for little change in vendor lead times.

Producers expected faster growth in hiring in the months ahead. They also expected solid growth in average wages and a pickup in the average workweek.

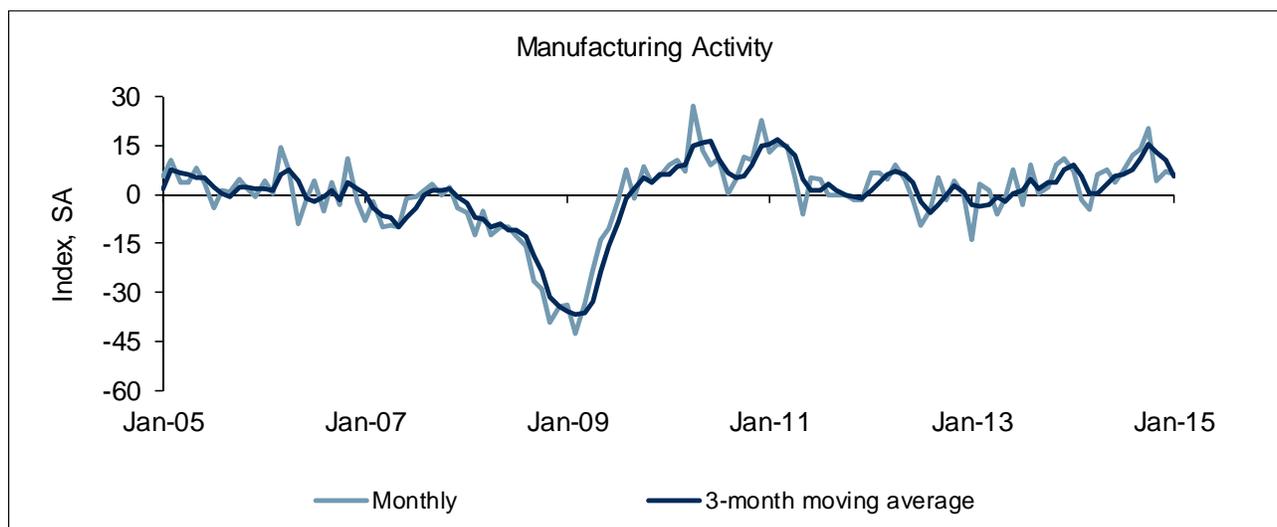
Prices of raw materials and finished goods rose at a slower pace compared to last month. Survey

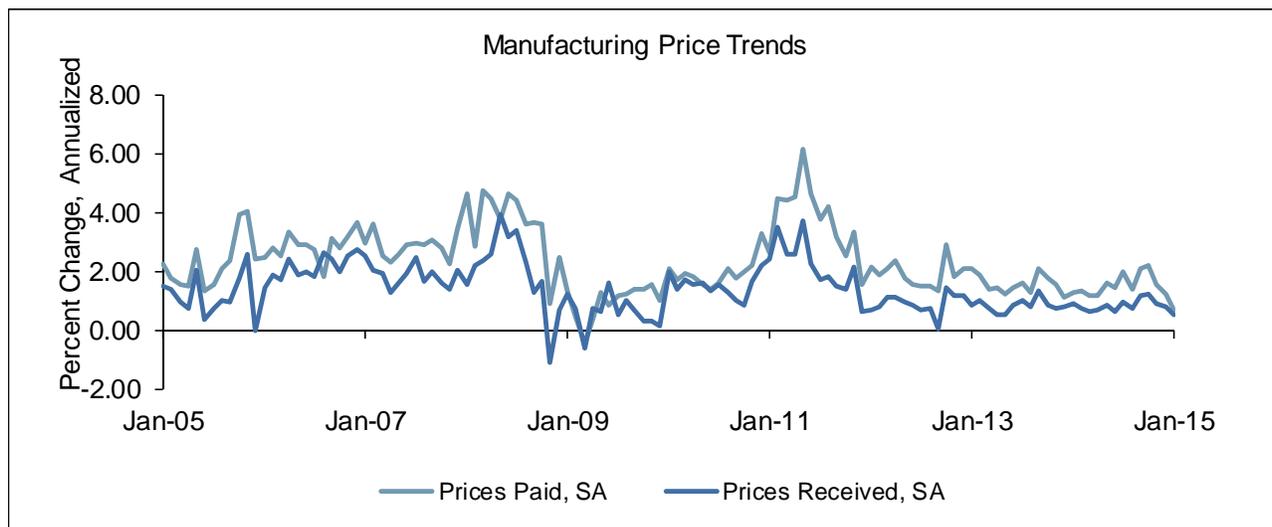
participants expected faster growth in prices paid and prices received over the next six months.

### Current Activity

Overall, manufacturing activity increased at a modest pace. The January composite index for manufacturing moved down one point to a reading of 6. The index for shipments advanced five points to end at a reading of 10. The index for new orders grew at the same pace as a month ago, finishing at a reading of 4. Manufacturing employment grew at a slower pace this month, pulling the index down eight points to finish at 5.

Capacity utilization increased in January. The index gained 14 points from December's reading to finish at an index of 9. Vendor lead times lengthened compared to a month ago, moving the index up three points to a reading of 5. Backlogs dropped this month. The indicator lost four points to settle at -9. Finished goods inventories rose more quickly compared to a month ago. That index added three points to end at 25. Additionally, raw materials inventories growth remained solid this month. That gauge moved to 19 from 20.





**Employment**

Manufacturing employment weakened slightly this month. The index ended the survey period at 5 compared to last month's reading of 13. The average workweek picked up in January, moving that index up four points to end at 8. However, average wages grew at a slower rate. That indicator lost five points to finish at a reading of 3.

**Expectations**

Manufacturers were optimistic about future business conditions. They continued to look for strong growth in shipments and in the volume of new orders, albeit somewhat below their expectations of a month earlier. The index for expected shipments finished at a reading of 30, eight points below last month's outlook, and the index for expected new orders moved down five points to a reading of 29.

Producers expected backlogs to grow more quickly in the next six months. However, that outlook index moved down three points to finish at 11. Additionally, manufacturers expected capital spending would grow more quickly in the months ahead. The index rose eight points to 36. Firms anticipated little change in vendor lead times in the next six months. That outlook index added two points to finish at 5. The index for future capacity utilization fell 11 points in January to a reading of 20.

Firms planned to increase hiring at a slower pace in the months ahead. The index slipped five points to end at 18. The index for expected average

wages grew at a faster pace, moving up five points to finish at 31. Additionally, the expected average workweek gauge rose to a reading of 12 from December's 3.

**Prices**

Prices of raw materials rose more slowly this month, advancing at an annualized 0.70 percent rate compared to the previous 1.26 percent pace. Prices of finished goods rose at a 0.53 percent annualized rate, slightly below December's 0.83 percent pace.

For the six months ahead, survey respondents expected input prices would rise more quickly, at an annualized 1.17 percent rate. Finished goods prices were expected to increase at an annualized 0.82 percent rate, compared to the previous month's outlook for 0.81 percent growth.

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Business Activity Indexes <sup>1,4</sup>						
General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Jan -15	Dec-14	Nov-14	Jan-15	Dec-14	Nov-14
Fifth District Manufacturing Index <sup>3</sup>	6	7	4	--	--	--
Company Conditions						
Shipments	10	5	1	30	38	34
Volume of New Orders	4	4	1	29	34	36
Backlog of Orders	-9	-5	-2	11	14	12
Capacity Utilization	9	-5	13	20	31	21
Vendor Lead-time	5	2	7	5	3	2
Number of Employees	5	13	10	18	23	22
Average Workweek	8	4	5	12	3	9
Wages	3	8	15	31	26	24
Capital Expenditures	--	--	--	36	28	17
Inventory Levels						
Finished Goods Inventories	25	22	20	--	--	--
Raw Materials Inventories	19	20	23	--	--	--
Price Trends <sup>4</sup>						
Prices Paid	0.70	1.26	1.57	1.17	1.46	2.05
Prices Received	0.53	0.83	0.90	0.82	0.81	1.12

**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 103 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.