

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Slowed; Shipments and New Orders Flattened

Overview

Fifth District manufacturing activity slowed in February, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders flattened, while the backlog of orders declined. Hiring in the sector was weak and the average workweek shrank, although wage growth advanced modestly. Despite the soft current conditions, producers were upbeat about future business opportunities. Expectations were for solid increases in shipments and new orders in the six months ahead, with greater capacity utilization. In addition, manufacturers looked for a build-up in backlogged orders and minimal vendor lead-times.

Compared to January's outlook, producers expected slower employment growth and less growth in the average workweek. Although wage growth expectations remained solid in February, the outlook was less robust than a month earlier.

Prices of raw materials and finished goods were little changed in February. Looking ahead, manufacturers expected slower price growth over the next six months than they had a month ago.

Current Activity

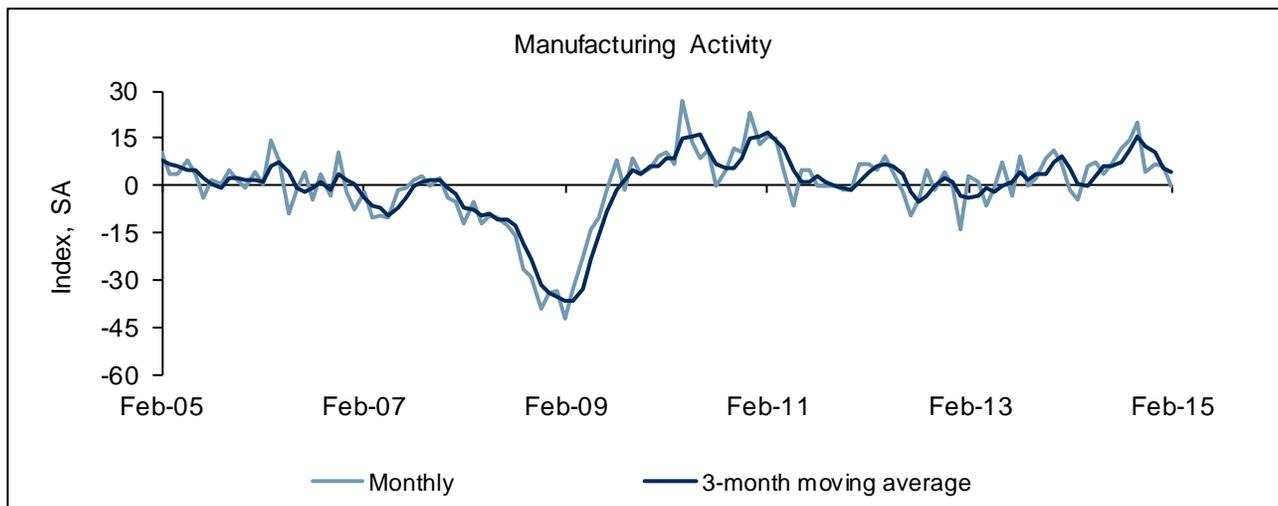
Manufacturing activity slowed this month, with several components flattening. The composite index dropped to zero from January's reading of 6. The shipments index slipped to -1 from 10, the volume of new orders fell six points to -2, and the index for the number of employees shed one point to end at 4.

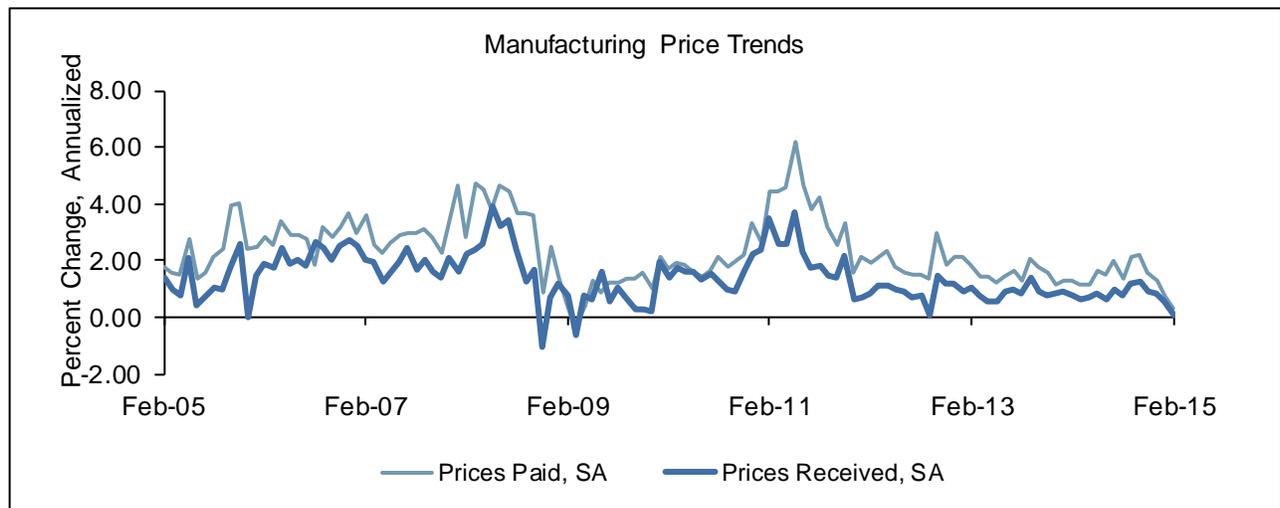
Capacity utilization also dropped in February, settling 13 points lower at -4. The indicator for vendor lead times fell to 2 from 5. Backlogs of new orders remained in the doldrums, with that index falling another point to -10 this month.

Finished goods inventories continued to grow solidly, although that index also fell below last month's reading. The index declined to 20 from 25. Raw materials inventories rose nearly on pace with January's reading, with the index three points lower this month at 16.

Employment

Employment in the manufacturing sector was little changed from a month ago. The index finished the survey period at a reading of 4 compared to





January's 5. The average workweek shortened, pulling the index to -6 from January's reading of 8. Average wages in the sector rose slightly faster, with the index gaining five points to finish at 8.

Expectations

Looking ahead six months, producers were optimistic about business conditions. The index for expected shipments matched its month-ago reading of 30. The outlook for new orders also remained strong. That indicator ended at 24 compared to the January index of 29.

Manufacturers looked for faster growth in their order backlogs during the next six months; the index remained at 11 for a second month. Producers anticipated minimal change in vendor lead times, with the index at 4 compared to January's reading of 5. The outlook for capacity utilization during that time frame was more positive than a month ago. The gauge added five points to finish at 25.

Expectations were for growth in capital spending, although the outlook was less sanguine than in January. The index fell to 27 from 36.

Manufacturers expected a slower pace of hiring and a shorter workweek over the next six months, compared to their expectations a month ago. The index for the number of employees dropped to 12 from last month's reading of 18, while the indicator for the average workweek settled at 10 from January's 12.

Wage expectations were also lower in February, with that index at 23 following a reading of 31 a month earlier.

Prices

Prices of raw materials were nearly flat in February, at a 0.32 percent growth rate, compared to the previous 0.70 percent pace. Prices of finished goods also flattened to a 0.09 percent annualized rate, well below January's 0.53 percent climb.

For the six months ahead, survey respondents expected input price growth would remain slow, at a 0.91 percent rate, compared to their previous outlook for 1.17 percent price growth. Finished goods prices were expected to slow to an annualized 0.48 percent rate. Last month, they looked for 0.82 percent growth.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Feb-15	Jan-15	Dec-14	Feb-15	Jan-15	Dec-14
Fifth District Manufacturing Index ³	0	6	7	--	--	--
Company Conditions						
Shipments	-1	10	5	30	30	38
Volume of New Orders	-2	4	4	24	29	34
Backlog of Orders	-10	-9	-5	11	11	14
Capacity Utilization	-4	9	-5	25	20	31
Vendor Lead-time	2	5	2	4	5	3
Number of Employees	4	5	13	12	18	23
Average Workweek	-6	8	4	10	12	3
Wages	8	3	8	23	31	26
Capital Expenditures	--	--	--	27	36	28
Inventory Levels						
Finished Goods Inventories	20	25	22	--	--	--
Raw Materials Inventories	16	19	20	--	--	--
Price Trends⁴						
Prices Paid	0.32	0.70	1.26	0.91	1.17	1.46
Prices Received	0.09	0.53	0.83	0.48	0.82	0.81

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 101 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.