

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Declined; Shipments and New Orders Fell

Overview

Manufacturing activity declined in March, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders dropped. Order backlogs fell and capacity utilization declined. Hiring in the manufacturing sector was soft and the average workweek shortened. Wage growth remained modest.

Looking ahead six months, producers anticipated more favorable business conditions. Producers expected strength in shipments and new orders, and a jump in capacity utilization. Expectations were for a growing backlog of orders and a slight rise in vendor lead-times. Further, producers anticipated robust growth in hiring and wages, along with a modestly longer workweek.

Prices of raw materials and finished goods rose only slightly in March. Manufacturers anticipated mildly faster price growth over the next six months, compared with the current pace.

Current Activity

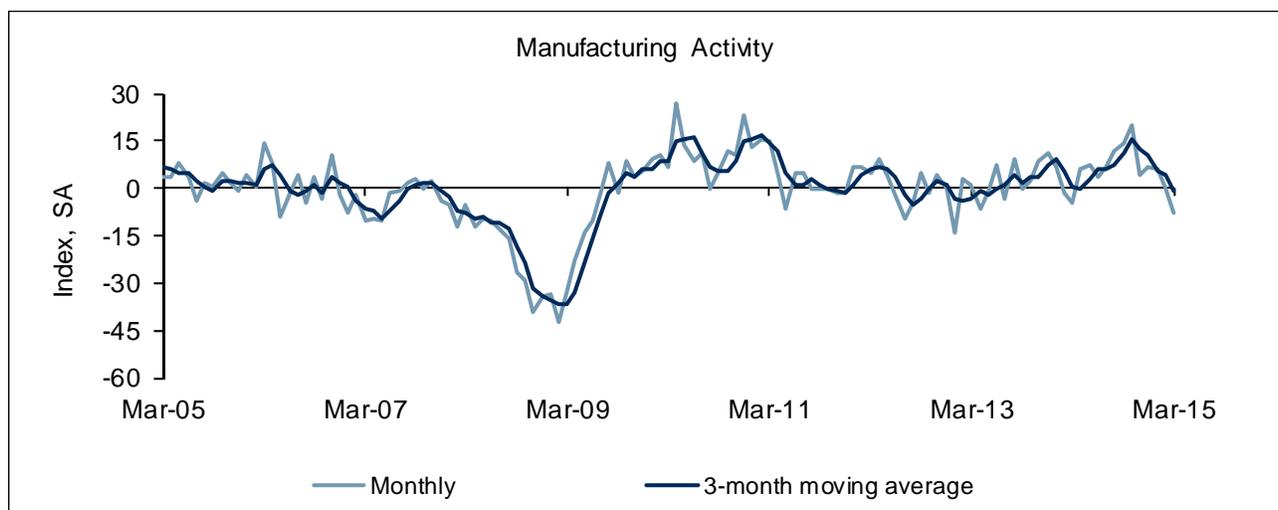
Manufacturing activity decelerated this month after flattening in February. The composite index fell to -8 in March from a reading of 0 a month earlier. The shipments index collapsed to -13, as did the index for the volume of new orders, compared to month-ago readings of -1 and -2, respectively. Capacity utilization also fell, with that index shrinking three points to -7.

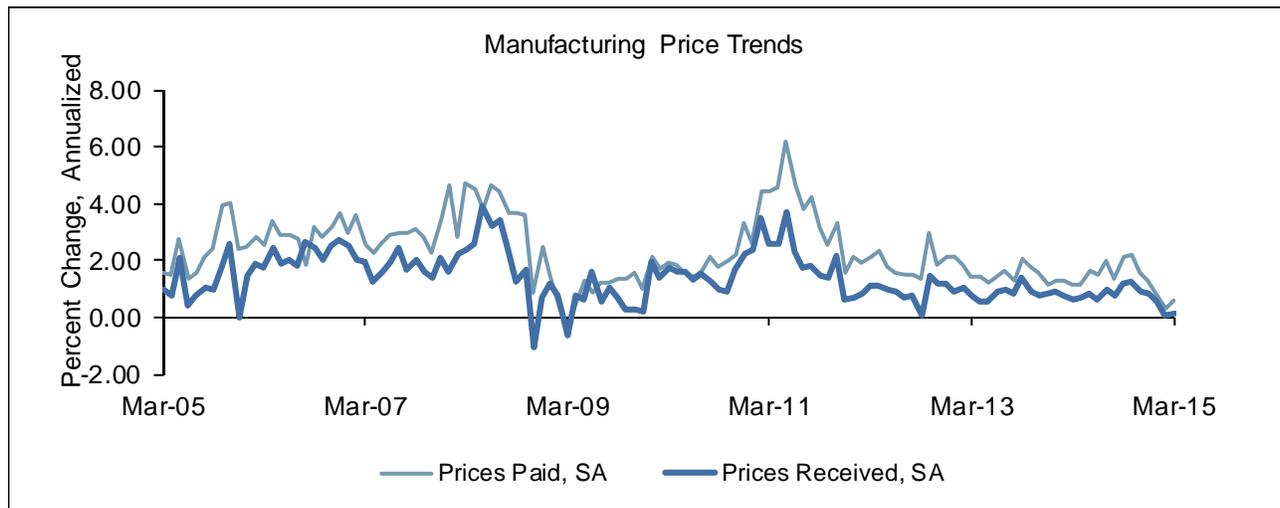
The gauge for vendor lead-times dropped to -9 from 2. Finally, backlogs of new orders lost two points, settling at -12 in March.

As shipments declined, finished goods inventories rose, pulling the index to 25 from 20. Raw materials inventories also grew, with that indicator gaining nine points to end the survey period at 25.

Employment

Manufacturing employment inched up in March, with the index gaining two points to finish at a reading of 6. The average workweek shortened, although by less than in February; the index settled at -4 compared with last month's -6. Average





wages rose on pace with a month earlier, keeping the index at 8.

Expectations

Manufacturers’ optimism strengthened in March regarding business conditions during the next six months. The expectations index for shipments climbed seven points from the previous month, finishing at 37 in March. The outlook for the volume of new orders increased 11 points to 35, and the indicator for backlogs of orders added five points to February’s expectation for a reading of 16.

Furthermore, survey respondents looked for rising capital expenditures over the next six months. The index moved up to 32 from February’s reading of 27. Vendor lead-time expectations were little changed from a month ago. That index gained one point to end at a reading of 5. The indicator for capacity utilization dropped only a point, to settle at 24.

Producers planned significant hiring in the next six months; the expectations index for the number of employees rose to 23, compared to last month’s reading of 12. Additionally, the gauge for expected average manufacturing wages jumped eight points in March to 31. The index for the average workweek shed two points from the February outlook to end at 8.

Prices

Prices of raw materials continued to rise only

slightly, at an annualized rate of 0.62 percent in March, compared to February’s 0.32 percent rate. Prices of finished goods grew nearly on pace with a month ago, at an annualized 0.10 percent rate. In February, finished goods prices rose at 0.09 percent, annualized.

Survey respondents expected input prices would pick up in the next six months, to a 1.53 percent pace. A month ago, expectations were for 0.91 percent annualized future price growth. Prices of finished goods were expected to rise at a 1.09 percent pace over the next six months, according to the March survey. A month ago, the outlook was for 0.48 percent annualized price growth in finished goods prices.

Contact

Jeannette Plamp

Economic Analyst
 Research Dept. / Regional Economics
 Federal Reserve Bank of Richmond

Richmond Office: 804.697.8152 • Fax:
 804.697.8123

Jeannette.Plamp@rich.frb.org
www.richmondfed.org

Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Mar-15	Feb-15	Jan-15	Mar-15	Feb-15	Jan-15
Fifth District Manufacturing Index ³	-8	0	6	--	--	--
Company Conditions						
Shipments	-13	-1	10	37	30	30
Volume of New Orders	-13	-2	4	35	24	29
Backlog of Orders	-12	-10	-9	16	11	11
Capacity Utilization	-7	-4	9	24	25	20
Vendor Lead-time	-9	2	5	5	4	5
Number of Employees	6	4	5	23	12	18
Average Workweek	-4	-6	8	8	10	12
Wages	8	8	3	31	23	31
Capital Expenditures	--	--	--	32	27	36
Inventory Levels						
Finished Goods Inventories	25	20	25	--	--	--
Raw Materials Inventories	25	16	19	--	--	--
Price Trends⁴						
Prices Paid	0.62	0.32	0.70	1.53	0.91	1.17
Prices Received	0.10	0.09	0.53	1.09	0.48	0.82

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 102 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.