

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Remained Tepid; Employment Edged Up, Wage Growth Accelerated

Overview

Manufacturing activity flattened in May, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders leveled off, while the backlog of orders declined further compared to last month. Hiring edged up, while the average workweek increased slightly. However, average wage growth accelerated this month.

Despite the soft conditions this month, manufacturers continued to look for improved business conditions in the next six months. Expectations were for solid growth in shipments and in the volume of new orders in the six months ahead. In addition, survey participants looked for increased capacity utilization and expected order backlogs to grow more quickly. However, producers looked for little change in vendor lead times.

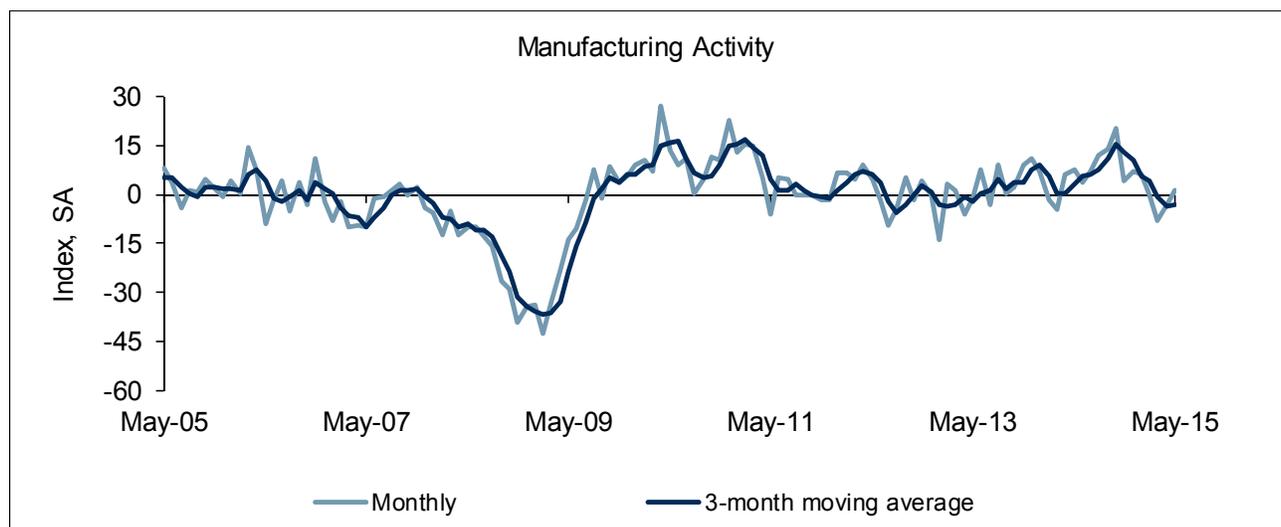
Manufacturers' outlook for the months ahead included faster growth in the number of employees and average wages than in the current month. In addition, they expected modest growth in the length of the average workweek.

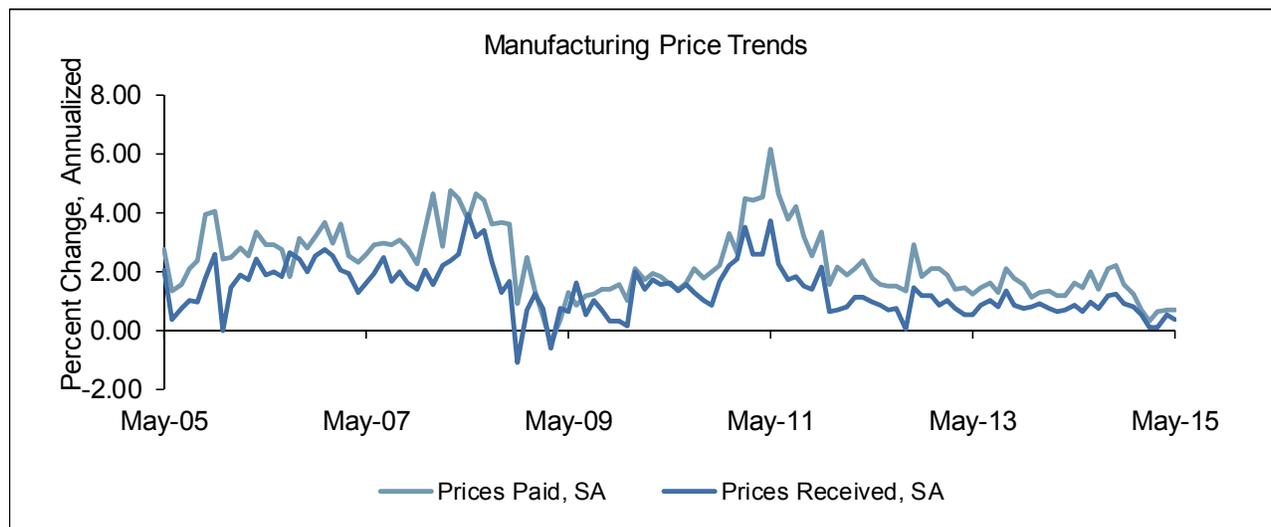
Prices of raw materials rose at a somewhat faster pace in May compared to last month. However, price growth slowed for finished goods. Manufacturers expected faster growth in prices paid and in prices received during the next six months.

Current Activity

Manufacturing activity remained soft this month, with several components flattening. The composite index for manufacturing moved to 1 following April's reading of -3, while the shipments index leveled off to -1 from -6. In addition, the index for new orders gained eight points, reaching a nearly flat reading of 2. Manufacturing hiring continued to grow at a modest pace this month. The May indicator slipped four points to a reading of 3.

Capacity utilization increased this month. The index moved up 11 points to a reading of 7. Backlogs decreased, pulling that index down two points to -10. Vendor lead time lengthened, pushing the index to 6 from a reading of -6. Finished goods inventories rose more quickly than a month ago. The index gained three points to finish at 21. Additionally, raw materials inventories rose at a slightly faster rate. That gauge also moved up three points, ending at 22.





Employment

Manufacturing employment continued to grow at a modest pace in May. The index ended the survey period at 3 compared to last month's reading of 7. The average workweek increased; the index moved up two points to end at 6. Additionally, the index for average wages advanced 11 points to finish at a reading of 20.

Expectations

Manufacturers continued to expect solid growth in shipments and in the volume of new orders. The index for expected shipments weakened to 34, somewhat below the outlook of a month ago, while the outlook index for new orders gained one point to end at 33.

Survey participants expected backlogs would build more quickly in the next six months. That outlook index shed three points to finish at a reading of 16. Producers anticipated vendor lead times would change little in the months ahead. The outlook index lost one point, finishing at 5. Firms expected capital spending would grow more quickly. The index remained unchanged at a reading of 26. The index for future capacity utilization lost one point this month to end at a reading of 25.

Manufacturers planned to increase hiring in the months ahead, with the expected employment index edging up three points to a reading of 18. The index for expected average wages remained strong, adding five points to finish at 33, while the expected average workweek gauge remained at a reading of 12.

Prices

Raw material prices rose at a somewhat faster pace this month, advancing at an annualized 0.70 percent rate, compared to a 0.69 percent pace previously. Prices of finished goods rose at a 0.38 annualized rate, slightly below April's 0.51 percent pace.

For the six months ahead, survey respondents expected input prices would rise more quickly, at an annualized 1.47 percent rate, following April's expectation for 1.22 percent growth. Finished goods prices were expected to rise at an annualized 0.93 percent rate, compared to the previous expectation for 0.95 percent growth.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	May-15	Apr-15	Mar-15	May-15	Apr-15	Mar-15
Fifth District Manufacturing Index ³	1	-3	-8	--	--	--
Company Conditions						
Shipments	-1	-6	-13	34	38	37
Volume of New Orders	2	-6	-13	33	32	35
Backlog of Orders	-10	-8	-12	16	19	16
Capacity Utilization	7	-4	-7	25	26	24
Vendor Lead-time	6	-6	-9	5	6	5
Number of Employees	3	7	6	18	15	23
Average Workweek	6	4	-4	12	12	8
Wages	20	9	8	33	28	31
Capital Expenditures	--	--	--	26	26	32
Inventory Levels						
Finished Goods Inventories	21	18	25	--	--	--
Raw Materials Inventories	22	19	25	--	--	--
Price Trends⁴						
Prices Paid	0.70	0.69	0.62	1.47	1.22	1.53
Prices Received	0.38	0.51	0.10	0.93	0.95	1.09

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 109 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.