

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Grew Modestly; New Orders Picked Up and Backlogs Increased

Overview

Fifth District manufacturing activity grew modestly in June, according to the most recent survey by the Federal Reserve Bank of Richmond. The volume of new orders picked up, while order backlogs increased. However, shipments remained flat in June. Manufacturing employment continued to rise at a modest pace, while average wages grew moderately. Prices of raw materials and prices of finished goods rose at a faster pace in June.

Manufacturing executives anticipated positive business conditions during the next six months. Manufacturers expected faster growth in shipments and in the volume of new orders. Additionally, producers expected order backlogs to grow more quickly and looked for increased capacity utilization. Survey participants anticipated unchanged vendor lead times.

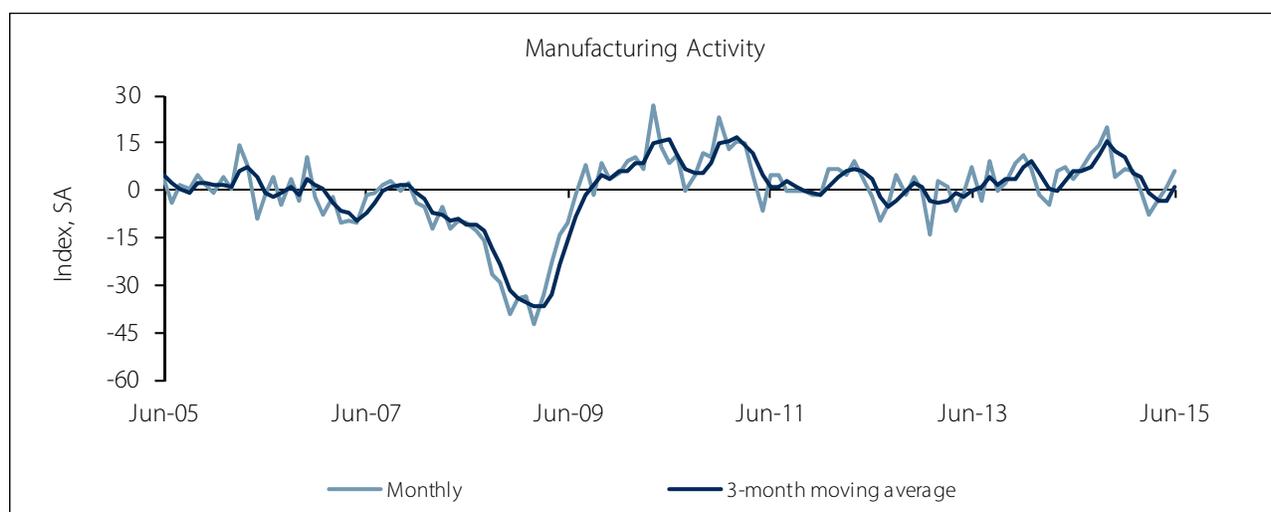
Manufacturers expected faster growth in the number of employees and looked for average wages to accelerate in the six months ahead. They expected a modest rise in the length of the

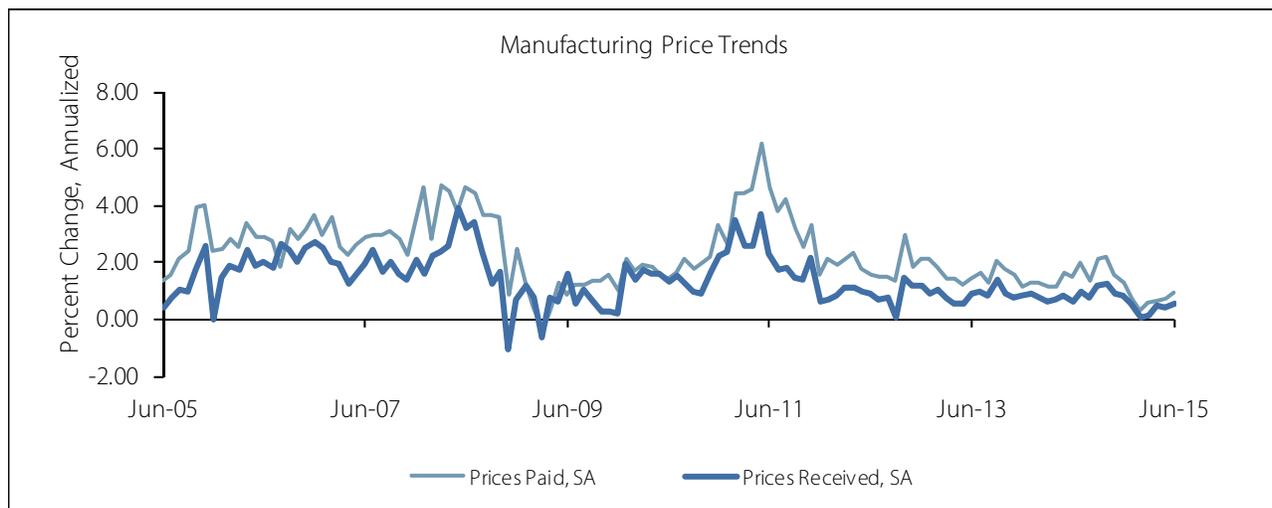
average workweek. In addition, producers expected faster growth in prices paid and in prices received during the next six months.

Current Activity

Manufacturing activity increased modestly this month, with the composite index moving to a reading of 6 from last month's reading of 1. Shipments remained flat, while the index for new orders advanced nine points, reaching a reading of 11. Manufacturing hiring continued to grow at a modest pace this month. The indicator gained one point to finish at a reading of 4 in June.

Capacity utilization rose nearly on pace with last month. The index slipped one point to a reading of 6. Backlogs increased, moving the index to 6 from a reading of -10 a month ago. Vendor lead time lengthened slightly, with that index edging up one point to 7. Finished goods inventories rose more quickly than a month ago. The index gained 10 points to end at 31. However, raw materials inventories rose only slightly faster. That gauge moved up one point to 23.





Employment

Manufacturing employment continued to grow at a modest pace in June, with the index climbing one point to finish at a reading of 4. The average workweek grew on pace with last month; the index moved down one point to end at 5. Average wages rose nearly on pace with a month ago; the index lost three points to finish at a reading of 17.

Expectations

Manufacturers anticipated better business conditions in the next six months, with steady growth in shipments and in the volume of new orders. Compared to May’s readings, the index for expected shipments strengthened to 38 while the outlook index for new orders edged up two points to end at 35.

Survey participants expected backlogs would build more quickly in the next six months. The May outlook index softened three points to finish at a reading of 13. Firms anticipated vendor lead times would remain the same in the months ahead. Producers expected capital spending would continue to rise at a strong pace. The index ended at a reading of 23. The index for future capacity utilization gained three points to end at 28.

Manufacturers expected to increase hiring in the six months ahead. The index for the expected number of employees settled at a reading of 15 compared to the May reading of 18. The index for expected average wages remained solid, finishing

at 32, and the expected average workweek gauge gained two points to end at a reading of 14.

Prices

Prices of raw materials rose at a faster pace in June, advancing at an annualized 0.92 percent rate, compared to a 0.70 percent pace in May. Prices of finished goods rose at a 0.52 annualized rate, above May’s 0.38 percent pace.

For the six months ahead, survey respondents expected input prices would rise somewhat more quickly, at an annualized 1.48 percent rate, following May’s expectation for 1.47 percent growth. Finished goods prices were expected to rise at an annualized 0.87 percent rate, compared to the previous expectation for 0.93 percent growth.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Jun-15	May-15	Apr-15	Jun-15	May-15	Apr-15
Fifth District Manufacturing Index ³	6	1	-3	--	--	--
Company Conditions						
Shipments	0	-1	-6	38	34	38
Volume of New Orders	11	2	-6	35	33	32
Backlog of Orders	6	-10	-8	13	16	19
Capacity Utilization	6	7	-4	28	25	26
Vendor Lead-time	7	6	-6	0	5	6
Number of Employees	4	3	7	15	18	15
Average Workweek	5	6	4	14	12	12
Wages	17	20	9	32	33	28
Capital Expenditures	--	--	--	23	26	26
Inventory Levels						
Finished Goods Inventories	31	21	18	--	--	--
Raw Materials Inventories	23	22	19	--	--	--
Price Trends⁴						
Prices Paid	0.92	0.70	0.69	1.48	1.47	1.22
Prices Received	0.52	0.38	0.51	0.87	0.93	0.95

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 81 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.