

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Slowed; New Orders Flattened, Shipments Decreased

Overview

Fifth District manufacturing activity slowed in August, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and order backlogs decreased, while new orders flattened this month. Manufacturing hiring softened this month; however, average wages continued to increase at a moderate pace. Prices of raw materials rose more slowly in August, while prices of finished goods grew slightly faster compared to last month.

Despite the soft current conditions, producers remained optimistic about future business conditions. Expectations were for solid increases in shipments and in the volume of new orders in the six months ahead, with increased capacity utilization. In addition, manufacturers looked for rising backlogs and longer vendor lead times.

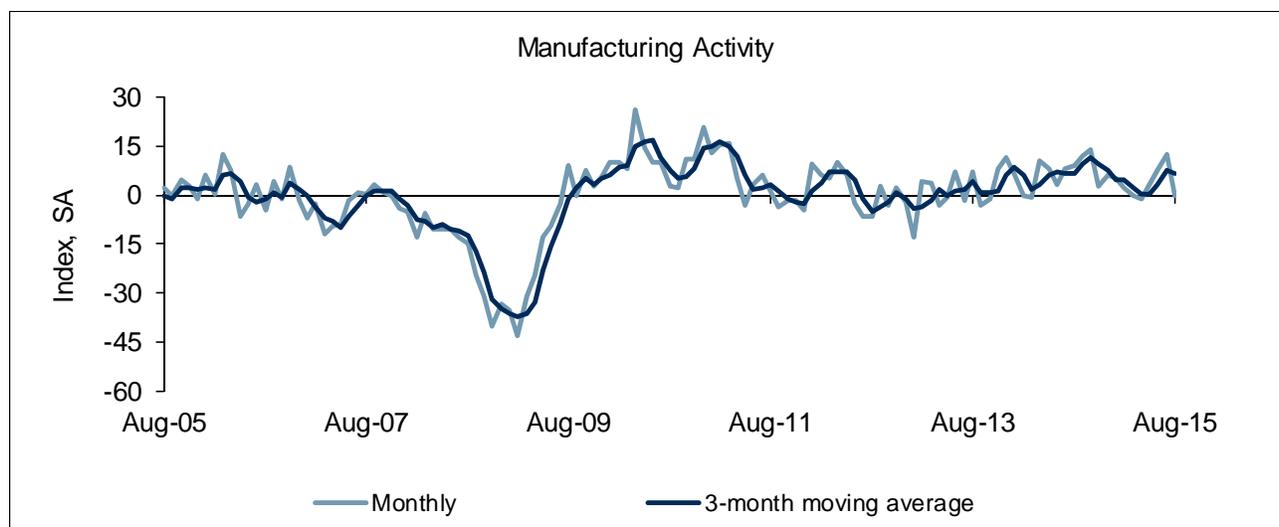
Producers expected faster employment growth and solid growth in wages during the next six months. Survey participants looked for moderate growth in the average workweek. Looking ahead,

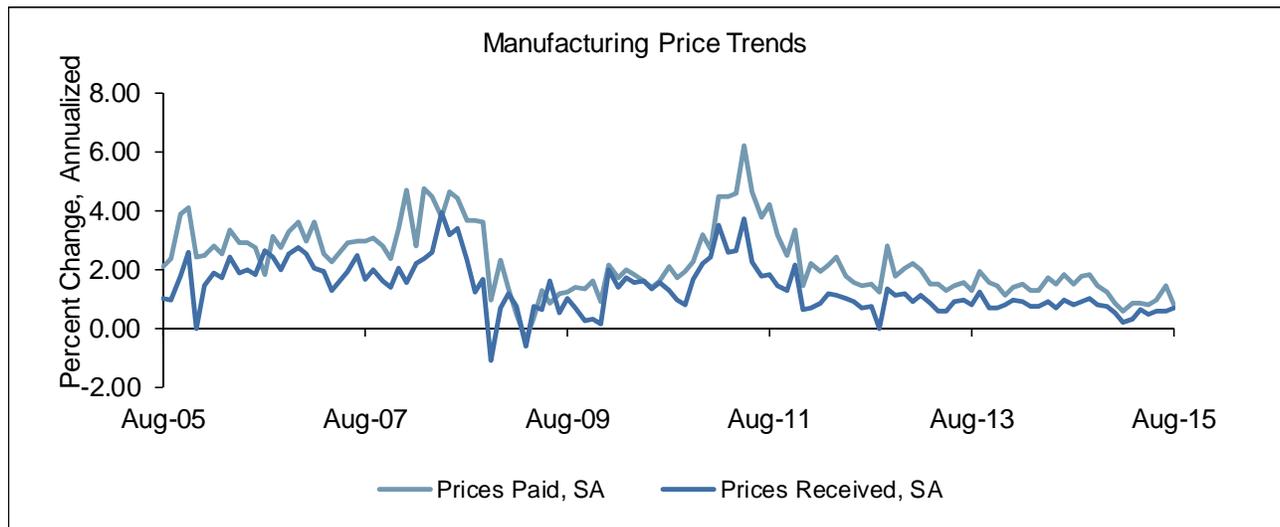
manufacturers looked for faster growth in prices paid and prices received.

Current Activity

Overall, manufacturing conditions slowed in August, with several components softening. The composite index flattened to a reading of 0. Shipments dropped sharply; the index lost 20 points to end at -4 and the index for new orders fell 16 points to finish at a reading of 1. Manufacturing employment remained at a flat reading of 1.

Backlogs decreased in August, with the index settling 25 points lower at -15. The capacity utilization index also slipped this month, pulling the index down 14 points to a reading of -5. Vendor lead time lengthened slightly, with that indicator gaining five points to end at 9. Finished goods inventories rose at the same pace as last month; the index held steady at 24. Raw materials inventories increased at a faster pace this month. That gauge increased eight points to 24.





Employment

Manufacturing employment remained at a flat reading of 1 this month. The average workweek edged up, with the index ticking up two points from July’s reading to finish at 3. Average wages continued to increase moderately, adding one point to end at 15.

Expectations

Looking ahead six months, producers remained upbeat about business conditions, although somewhat less sanguine than in July. Manufacturers looked for moderate growth in shipments and in the volume of new orders. The indexes for expected shipments and new orders both softened to a reading of 36, below last month’s indexes of 42 and 43, respectively

Compared to a month earlier, survey participants expected backlogs would rise at a faster pace in the next six months; the outlook index gained one point to finish at a reading of 25. Firms expected vendor lead times would lengthen; the outlook index lost three points. Manufacturers anticipated capital spending would grow at a slightly slower rate, pushing the index down two points to 29. The index for future capacity utilization gained seven points, ending at 34.

Survey participants looked for strong growth in hiring in the months ahead. The outlook index finished only three points below last month’s gauge at a reading of 19. The index for expected average wages settled at

34, just five points below July’s reading. Additionally, the expected average workweek gauge added nine points reaching a reading of 34.

Prices

Prices of raw materials rose at an annualized 0.80 percent rate, slowing from the previous 1.45 percent pace. Prices of finished goods rose at a 0.71 annualized rate, slightly faster than July’s 0.58 percent pace.

For the six months ahead, survey participants anticipated input prices would grow more quickly, at an annualized 1.51 percent pace, following July’s expectation for 1.45 percent growth. Finished goods prices were also expected to rise more rapidly, increasing at an annualized 1.20 percent rate compared to the previous outlook for 1.03 percent growth.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Aug-15	Jul-15	Jun-15	Aug-15	Jul-15	Jun-15
Fifth District Manufacturing Index ³	0	13	7	--	--	--
Company Conditions						
Shipments	-4	16	5	36	42	40
Volume of New Orders	1	17	10	36	43	37
Backlog of Orders	-15	10	3	25	24	14
Capacity Utilization	-5	9	6	34	27	29
Vendor Lead-time	9	4	5	6	9	0
Number of Employees	1	1	6	19	22	17
Average Workweek	3	1	4	12	3	12
Wages	15	14	16	34	29	31
Capital Expenditures	--	--	--	29	31	26
Inventory Levels						
Finished Goods Inventories	24	24	30	--	--	--
Raw Materials Inventories	24	16	23	--	--	--
Price Trends ⁴						
Prices Paid	0.80	1.45	0.97	1.51	1.45	1.47
Prices Received	0.71	0.58	0.59	1.20	1.03	0.92

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 78 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.