

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Generally Softened; Average Wages Grew Moderately

Overview

Fifth District manufacturing activity slowed in September, according to the most recent survey by the Federal Reserve Bank of Richmond. Order backlogs and new orders decreased, while shipments declined. Average wages continued to increase at a moderate pace this month, however manufacturing employment grew mildly. Prices of raw materials and prices of finished goods rose, although at a slightly slower pace compared to last month.

Manufacturers anticipated improved business conditions during the next six months. Producers expected faster growth in shipments and in the volume of new orders. Additionally, survey participants expected order backlogs to grow and anticipated increased capacity utilization. Expectations were for longer vendor lead times during the next six months.

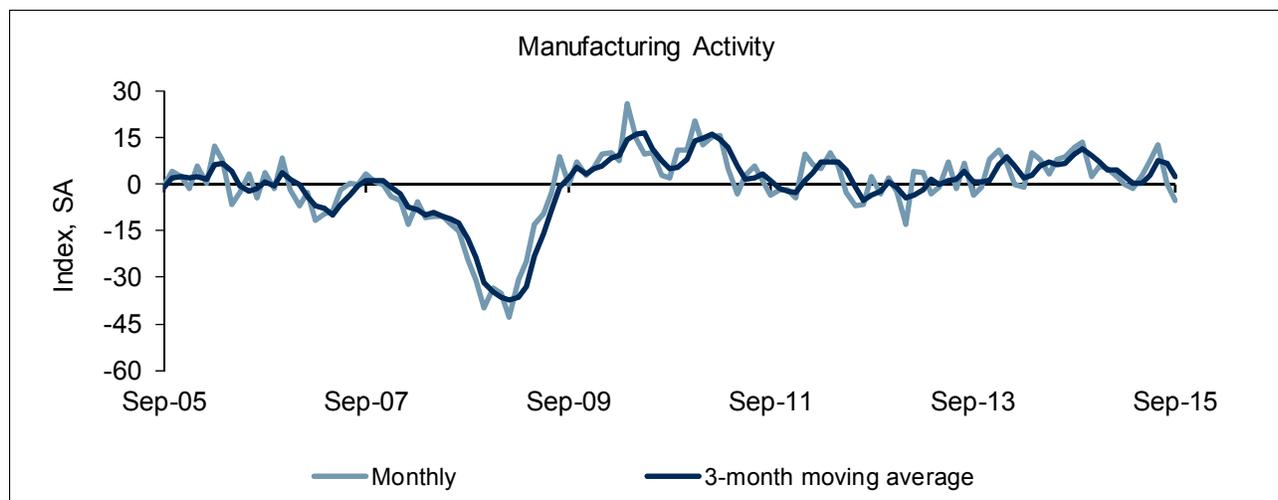
Firms expected faster growth in the number of employees and looked for average wages to grow more quickly in the months ahead. In addition, survey participants looked for moderate growth in the

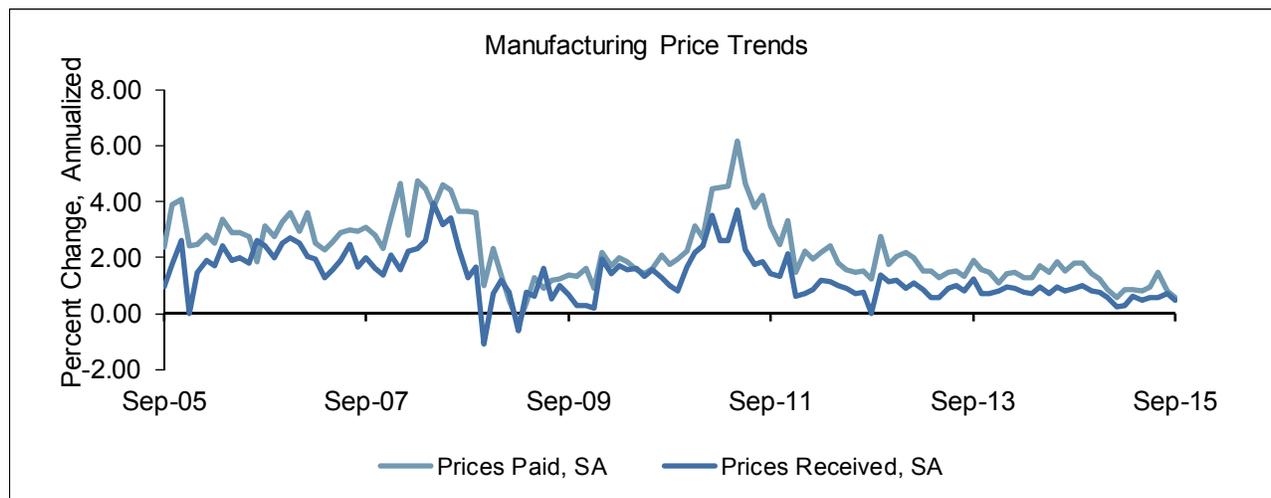
average workweek. Looking ahead, manufacturers anticipated faster growth in prices paid and prices received.

Current Activity

Overall, manufacturing conditions weakened in September. The composite index for manufacturing decreased to a reading of -5, following last month's reading of 0. The index for shipments remained negative, only gaining one point to end at -3. Additionally, the volume of new orders decreased this month. At an index of -12, the September indicator lost 13 points from last month's reading of 1. Manufacturing employment increased mildly this month. The indicator added two points, ending at a reading of 3.

Capacity utilization decreased this month. The index fell 14 points from August's reading to finish at a reading of -19. Additionally, backlogs softened further this month, pulling the index down nine points to finish at -24. Vendor lead time lengthened. The index moved down only two points to a reading of 7. Finished goods inventories rose at a slightly slower rate than a month ago. The index lost three points to





end at 21. Raw materials inventories also rose at a slower rate this month. That gauge lost two points to end at 22.

Employment

Manufacturing employment increased mildly this month. The index gained two points to end the survey period at 3. However, the average workweek indicator dropped sharply to a reading of -12 from a reading of 3, while the gauge for average wages remained at a solid reading of 15 for a second month.

Expectations

Producers anticipated positive business conditions for the six months ahead. They continued to expect steady growth in shipments and in the volume of new orders. The indexes for expected shipments and new orders strengthened to readings of 48 and 42, respectively.

Survey participants expected backlogs would build more quickly in the months ahead. That outlook index lost six points to finish at a reading of 19. Firms anticipated vendor lead times would lengthen slightly in the months ahead. That index added four points to finish at 10. Producers expected capital spending would grow more quickly. The index for future capacity utilization also strengthened, gaining four points this month to end at a reading of 33.

Firms planned to increase hiring in the months ahead, with the expectations index gaining seven points from last month's index for expected employment to end at 26. The index for expected

average wages remained solid, moving up nine points to finish at 43, while the expected average workweek gauge also strengthened slightly to a reading of 18.

Prices

Prices of raw materials rose more slowly this month, advancing at an annualized 0.57 percent rate, compared to the previous 0.80 percent rate. Prices of finished goods rose at a 0.47 annualized rate, slowing slightly from August's 0.71 percent pace.

Survey respondents expected input prices would rise more quickly for the six months ahead, at an annualized 1.00 percent pace. Finished goods prices were also expected to rise more quickly, increasing at an annualized 1.01 percent rate compared to the previous outlook for 1.20 percent growth.

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		
	Sep-15	Aug-15	Jul-15	Sep-15	Aug-15	Jul-15
Fifth District Manufacturing Index ³	-5	0	13	--	--	--
Company Conditions						
Shipments	-3	-4	16	48	36	42
Volume of New Orders	-12	1	17	42	36	43
Backlog of Orders	-24	-15	10	19	25	24
Capacity Utilization	-19	-5	9	31	34	27
Vendor Lead-time	7	9	4	10	6	9
Number of Employees	3	1	1	26	19	22
Average Workweek	-12	3	1	18	12	3
Wages	15	15	14	43	34	29
Capital Expenditures	--	--	--	33	29	31
Inventory Levels						
Finished Goods Inventories	21	24	24	--	--	--
Raw Materials Inventories	22	24	16	--	--	--
Price Trends⁴						
Prices Paid	0.57	0.80	1.45	1.00	1.51	1.45
Prices Received	0.47	0.71	0.58	1.01	1.20	1.03

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 82 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.