

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Remained Soft; Volume of New Orders Leveled Off

Overview

Fifth District manufacturing activity remained soft in October, according to the most recent survey by the Federal Reserve Bank of Richmond. Order backlogs and shipments declined, while new orders leveled off. Manufacturing employment remained soft, growing at the same pace as a month ago. The average workweek shortened and average wages rose moderately. Raw materials prices rose at nearly the same pace as in September, while prices of finished goods dropped in October.

Manufacturers looked for better business conditions during the next six months. Survey participants continued to expect faster growth in shipments and in the volume of new orders in the six months ahead. Producers also looked for increased capacity utilization and anticipated rising backlogs. Expectations were for an increase in vendor lead times during the next six months.

Survey participants planned more hiring, along with moderate growth in wages and a pickup in the average workweek during the next six months. Looking ahead, manufacturers anticipated faster growth in prices paid and prices received.

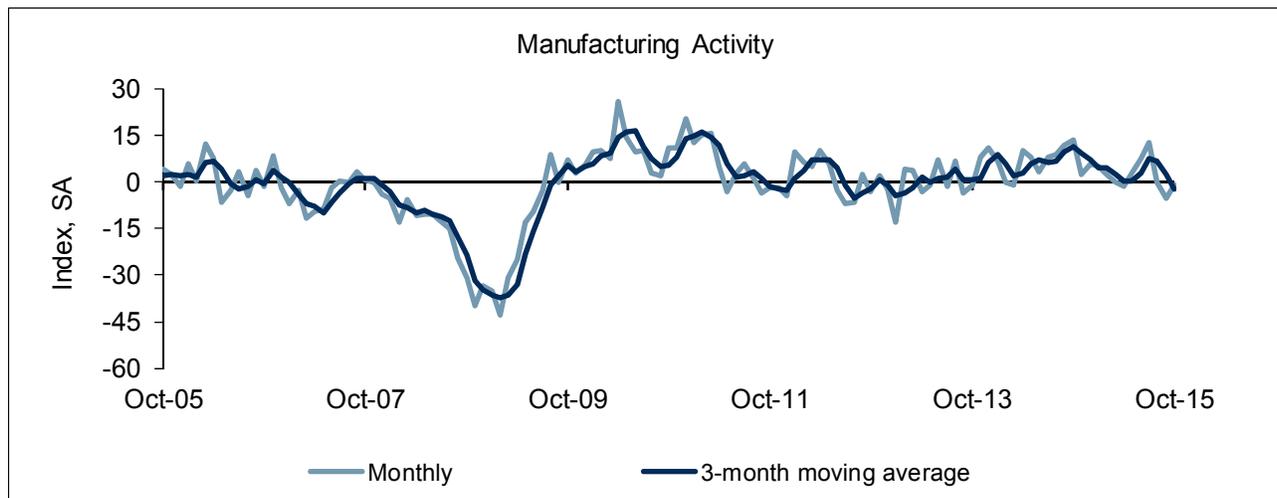
Current Activity

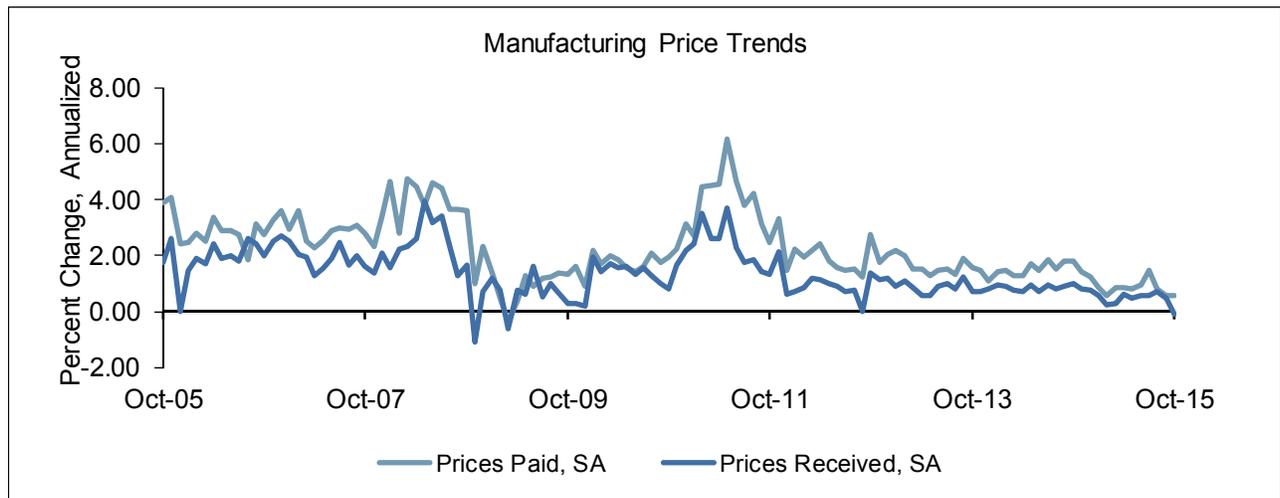
Overall, manufacturing conditions remained soft in October. The composite index for manufacturing flattened to a reading of -1, following last month's reading of -5. Additionally, the index for new orders leveled off this month, gaining 12 points to end at 0. The index for shipments remained negative, losing one point to end at -4. Manufacturing employment continued to increase mildly this month. The indicator remained at a reading of 3 for a second month.

The October indicator for vendor lead time decreased from a reading of 7 to -2. Additionally, capacity utilization remained soft this month, with the gauge moving up five points to a reading of -14. The index for backlogs of new orders rose 17 points, finishing at -7. Finished goods inventories rose at a faster rate than a month ago. The index picked up four points to end at 25. Additionally, raw materials inventories increased at a faster rate this month. That gauge gained four points to end at 26.

Employment

Manufacturing employment edged up for a second consecutive month. The index maintained a reading of 3, while the average workweek shortened, bringing





that index to a reading of -5. Average wages rose slightly faster in October. The indicator moved to 17 from the previous reading of 15.

Expectations

Producers remained positive about business conditions for the next six months. They continued to expect steady growth in shipments and in the volume of new orders. The index for expected shipments lost six points from the September reading to end at 42, while the index for new orders strengthened two points to a reading of 44.

Survey participants expected backlogs would build up in the months ahead. The outlook index gained two points to finish at a reading of 21. Manufacturers expected vendor lead time would lengthen. The outlook index lost five points from a month earlier to finish at 5. Firms also anticipated capital spending would grow more quickly. The index rose to 21 from the previous reading of 33. The index for future capacity utilization lost three points this month to end at a reading of 28.

Firms looked for steady growth in hiring in the months ahead, although somewhat weaker than September’s expectations. The outlook index finished seven points below last month’s gauge at a reading of 19. The index for expected average wages and expected average workweek remained solid, finishing at readings of 37 and 12, respectively.

Prices

Raw materials prices rose nearly on pace with a month ago, advancing at an annualized 0.58 percent

rate, compared to the previous 0.57 percent rate. Prices of finished goods fell to a -0.10 annualized rate, slower than September’s 0.47 percent pace.

For the six months ahead, survey respondents expected input prices would rise more quickly. They looked for an annualized 0.78 percent pace. Finished goods prices were expected to rise in the next six months, increasing at an annualized 0.39 percent rate.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Oct-15	Sep-15	Aug-15	Oct-15	Sep-15	Aug-15
Fifth District Manufacturing Index ³	-1	-5	0	--	--	--
Company Conditions						
Shipments	-4	-3	-4	42	48	36
Volume of New Orders	0	-12	1	44	42	36
Backlog of Orders	-7	-24	-15	21	19	25
Capacity Utilization	-14	-19	-5	28	31	34
Vendor Lead-time	-2	7	9	5	10	6
Number of Employees	3	3	1	19	26	19
Average Workweek	-5	-12	3	12	18	12
Wages	17	15	15	37	43	34
Capital Expenditures	--	--	--	21	33	29
Inventory Levels						
Finished Goods Inventories	25	21	24	--	--	--
Raw Materials Inventories	26	22	24	--	--	--
Price Trends⁴						
Prices Paid	0.58	0.57	0.80	0.78	1.00	1.51
Prices Received	-0.10	0.47	0.71	0.39	1.01	1.20

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 90 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.