

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Slowed; New Orders and Shipments Remained Sluggish

Overview

Fifth District manufacturing activity slowed in November, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments remained sluggish and new orders declined. Hiring in the sector changed little compared to the previous month, while the average workweek shortened and wages rose mildly. Raw materials prices rose at a somewhat faster pace, while prices of finished goods increased modestly in November.

Manufacturers' expectations were less optimistic in November compared to October. However, they still looked for an improvement in business conditions during the next six months. Compared to October's outlook, producers expected slower growth in shipments and in the volume of new orders in the six months ahead. Compared to current conditions, firms anticipated faster growth in backlogs and capacity utilization during the next six months, and expectations for vendor lead times were expected to change little in the next six months.

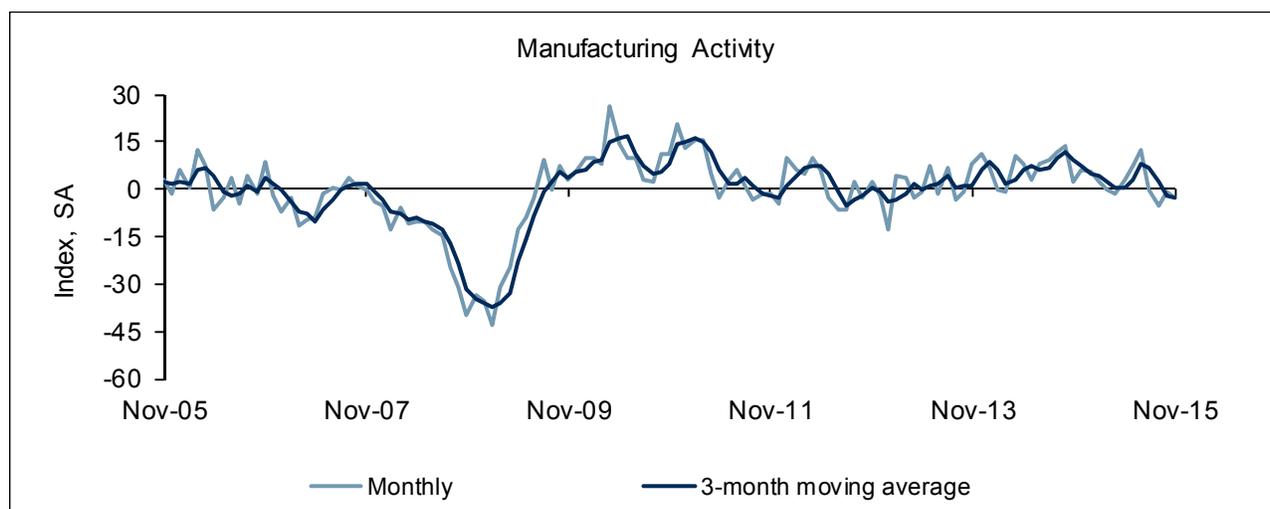
Survey participants looked for moderate growth in wages and a pickup in the average workweek during the next six months. Hiring expectations remained

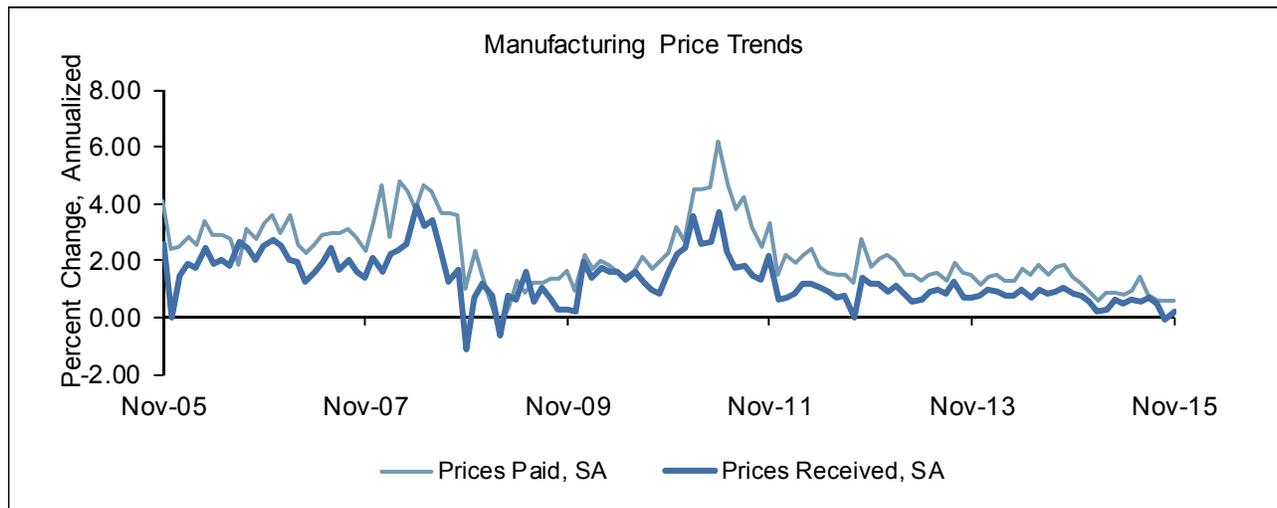
solid in November, although the outlook was less robust than a month earlier. Firms anticipated faster growth in prices paid and prices received.

Current Activity

Manufacturing activity slowed this month, with the composite index softening to a reading of -3, following last month's reading of -1. The index for shipments remained negative, ending at a reading of -2, while the index for new orders fell six points to -6. In addition, the index for employment flattened to a reading of 0 this month.

Vendor lead time changed little compared to the previous month; the index added only one point to end at -1. Additionally, capacity utilization leveled off this month, with that gauge ending at 0. Backlogs of new orders weakened this month. The indicator lost nine points, finishing at -16. Finished goods inventories continued to grow solidly, although that index fell below last month's reading. The index slipped five points to end at 20. Raw materials inventories increased at a faster rate this month, with the index ending at 29, three points above last month's reading.





Employment

Employment for the manufacturing sector overall was little changed from a month ago. The index slipped three points to a flat reading of 0. The average workweek shortened; the index moved to -3 from November’s reading of -5. Average wages rose modestly, with that index moving to 6 from the previous reading of 17.

Expectations

Looking ahead six months, producers remained positive about improved business conditions for the next six months, although expectations were not as robust as in the previous month. The index for expected shipments remained solid at 21, but it lost 21 points from the November reading of 42. In addition, the index for new orders lost 17 points to end at a reading of 27.

Manufacturers looked for faster growth in their backlogs during the next six months; the index remained at 21 for a second month. Producers anticipated little change in vendor lead times during the next six months. The outlook index softened to a nearly flat reading of -2. Expectations for capital spending were less positive compared to a month ago, the gauge lost 15 points ending at 6. The index for future capacity utilization lost four points this month to end at a reading of 24.

Firms expected modest growth in the number of employees in the months ahead. The outlook index finished eight points below last month’s gauge at a reading of 11, somewhat weaker than October’s

expectations index of 19. The index for expected average wages and expected average workweek remained solid, however, finishing at readings of 22 and 12, respectively.

Prices

Raw materials prices rose at a somewhat faster pace compared to a month ago, advancing at an annualized 0.61 percent rate, compared to the previous 0.58 percent rate. Prices of finished goods increased modestly to a 0.22 annualized rate, compared to October’s -0.10 percent pace.

Survey respondents expected input prices would rise more quickly during the six months ahead. They looked for an annualized 1.21 percent pace. Finished goods prices were expected to rise in the next six months, increasing at an annualized 1.09 percent rate.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Nov-15	Oct-15	Sep-15	Nov-15	Oct-15	Sep-15
Fifth District Manufacturing Index ³	-3	-1	-5	--	--	--
Company Conditions						
Shipments	-2	-4	-3	21	42	48
Volume of New Orders	-6	0	-12	27	44	42
Backlog of Orders	-16	-7	-24	21	21	19
Capacity Utilization	0	-14	-19	24	28	31
Vendor Lead-time	-1	-2	7	-2	5	10
Number of Employees	0	3	3	11	19	26
Average Workweek	-3	-5	-12	12	12	18
Wages	6	17	15	22	37	43
Capital Expenditures	--	--	--	6	21	33
Inventory Levels						
Finished Goods Inventories	20	25	21	--	--	--
Raw Materials Inventories	29	26	22	--	--	--
Price Trends ⁴						
Prices Paid	0.61	0.58	0.57	1.21	0.78	1.00
Prices Received	0.22	-0.10	0.47	1.09	0.39	1.01

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 70 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.