

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Expanded Mildly; New Orders Increased Modestly, Average Wages Rose Moderately

Overview

Fifth District manufacturing activity grew mildly in January, according to the most recent survey by the Federal Reserve Bank of Richmond. The volume of new orders grew modestly this month, although shipments decreased. Hiring increased at a slightly slower pace compared to last month, although average wages continued to increase at a moderate pace in January, and the average workweek lengthened. Raw materials prices rose at a somewhat slower pace, while prices of finished goods rose at a faster pace than in December.

Manufacturers were more optimistic about future business conditions than they were a month ago. Survey participants expected faster growth in shipments and in new orders. Additionally, producers looked for increased capacity utilization and anticipated rising backlogs. Expectations were for longer vendor lead times.

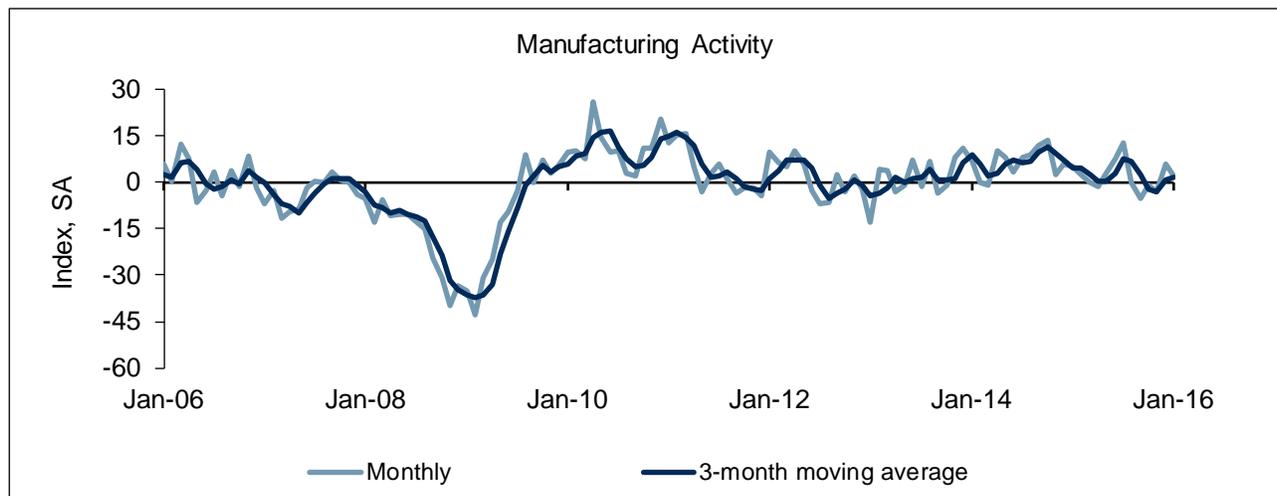
Survey participants planned more hiring, along with robust growth in wages and a pickup in the average workweek during the next six months. Firms looked for faster growth in prices paid and prices received

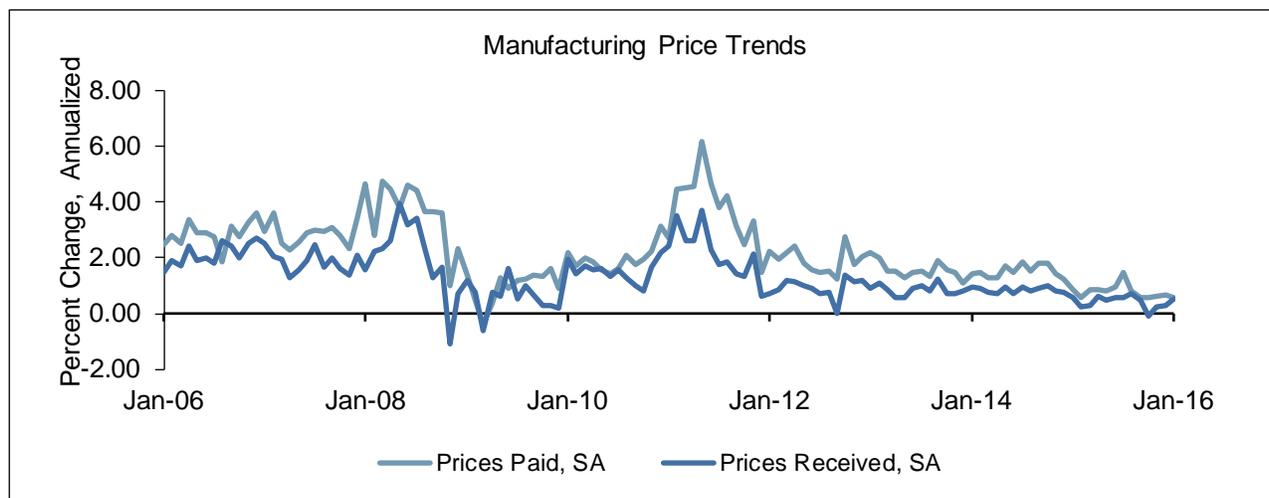
over the next six months, although their outlook was below December's expectations.

Current Activity

Overall, manufacturing activity grew mildly in January, but the growth was slower compared to a month earlier. The composite index lost four points, softening to a nearly flat reading of 2. New orders grew modestly in January, although the index slipped four points from a month earlier to end at 4. In addition, the index for shipments decreased to a reading of -6. Hiring moderated this month. At an index of 9, the indicator finished three points lower compared to last month.

Backlogs of new orders grew modestly in January, the index gained four points to end at 4, however capacity utilization slowed to a flat reading of 0. Vendor lead time lengthened only slightly this month with the index adding one point to end at 4. Finished goods inventories and raw materials inventories rose at a moderate pace, the indicators finished at 24 and 21 respectively, little changed from the month ago readings of 27 and 23.





Employment

Manufacturing employment strengthened modestly this month; the January index moderated three points to a reading of 9. The average workweek lengthened, although by slightly less than in December. The index settled at 8 compared to last month's reading of 7. Average wages continued to rise at a robust pace, with the index adding two points to finish at a reading of 19.

Expectations

Producers remained positive about business conditions for the six months ahead. They expected strong growth in shipments and in the volume of new orders. The indexes for expected shipments and new orders ended at readings of 34 and 28 respectively compared to a month ago readings of 24 and 23.

Survey participants expected backlogs would rise at a faster pace in the next six months; moving the outlook index up two points to finish at 13. Additionally, manufacturers expected vendor lead times would lengthen. The outlook index added two points, finishing at 10. Firms anticipated capital spending would grow at about the same pace as last month's expectations. That outlook index lost one point, settling at 22. The index for future capacity utilization gained 13 points to end at a reading of 29.

Firms looked for moderate growth in hiring in the months ahead. That outlook index finished seven points above last month's gauge at a reading of

23. Additionally, the index for expected average wages climbed 10 points to end at 33, while the index for the expected average workweek gained 10 points to end at a reading of 14.

Prices

Prices of raw materials prices rose at a somewhat slower pace in January, advancing at an annualized 0.59 percent rate, compared to the previous 0.67 percent rate. Prices of finished goods rose slightly faster this month, growing at a 0.51 annualized rate, compared to January's 0.27 percent pace.

Survey respondents expected input prices would pick up in the next six months, to a 1.38 percent pace. A month ago, expectations were for 1.60 percent annualized future price growth. Prices of finished goods prices were expected to rise at a 1.15 percent pace over the next six months. A month ago, the outlook was for 1.18 percent annualized price growth.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Jan-16	Dec-15	Nov-15	Jan-15	Dec-15	Nov-15
Fifth District Manufacturing Index ³	2	6	-3	--	--	--
Company Conditions						
Shipments	-6	0	-2	34	24	21
Volume of New Orders	4	8	-6	28	23	27
Backlog of Orders	4	0	-16	13	11	21
Capacity Utilization	0	2	0	29	16	24
Vendor Lead-time	4	3	-1	10	8	-2
Number of Employees	9	12	0	23	16	11
Average Workweek	8	7	-3	14	4	12
Wages	19	17	6	33	22	22
Capital Expenditures	--	--	--	22	23	6
Inventory Levels						
Finished Goods Inventories	24	27	20	--	--	--
Raw Materials Inventories	21	23	29	--	--	--
Price Trends⁴						
Prices Paid	0.59	0.67	0.61	1.38	1.60	1.21
Prices Received	0.51	0.27	0.22	1.15	1.18	1.09

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 77 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.