

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Sector Activity Slowed; New Orders Declined, Employment Increased Modestly*

### Overview

Fifth District manufacturing activity slowed in February, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders decreased modestly this month. Manufacturing hiring continued to increase at a modest pace, while average wages grew mildly and the average workweek lengthened slightly. Prices of raw materials and finished goods rose at a slower pace this month, compared to January.

Despite the current soft conditions, manufacturers remained upbeat about future business conditions. Expectations were for solid growth in shipments and in new orders in the six months ahead. Additionally, firms looked for increased capacity utilization and anticipated rising backlogs. Producers looked for shorter vendor lead times.

Producers expected faster employment growth and moderate growth in wages during the next six months. Survey participants looked for modest growth in the average workweek. Looking ahead, manufacturers anticipated faster growth in prices paid and prices received.

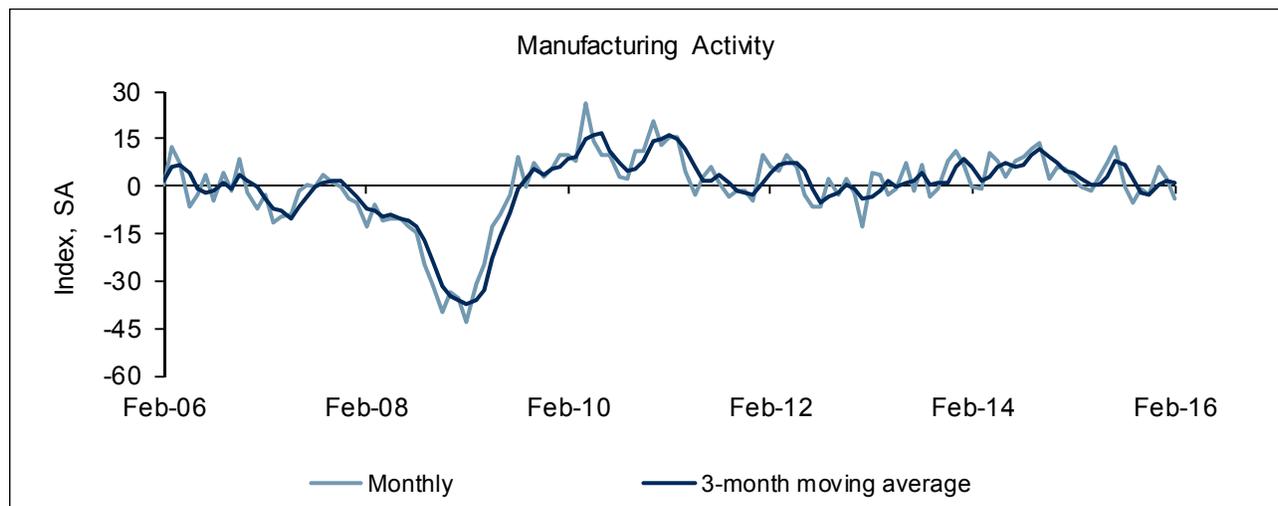
### Current Activity

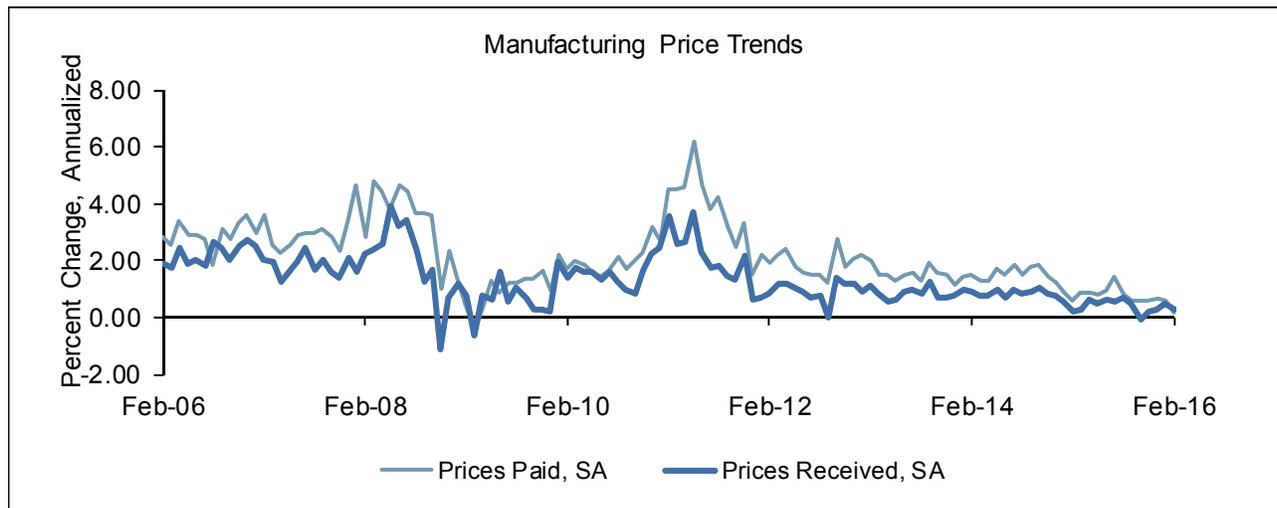
Overall, manufacturing activity slowed in February. The composite index softened six points to a reading of -4. Additionally, new orders and shipments decreased this month. The indicators finished at -6 and -11, respectively. Manufacturing employment grew at the same pace as a month ago; the index remained at 9.

Backlogs decreased in February, with the index ending 18 points lower at -14. Capacity utilization also declined this month, pulling the index down to -5. Vendor lead time lengthened slightly, with that indicator gaining two points to end at 6. Finished goods inventories rose at a moderate pace in February; the index lost four points ending at a reading of 20. Raw materials inventories also rose at a moderate pace, reaching a reading of 36.

### Employment

Manufacturing employment continued to increase modestly this month; the index remained at a reading of 9. The average workweek lengthened this month, although at a slower pace compared to January. The index ticked down three points from last month's





reading to finish at 5. Average wages increased modestly in February, although the index shed nine points to finish at a reading of 10.

**Expectations**

Looking ahead six months, producers remained upbeat about business conditions. Manufacturers expected solid growth in shipments and in the volume of new orders. The indexes for expected shipments and new orders ended at readings of 31, compared to January readings of 34 and 28, respectively.

Firms continued to expect backlogs would increase at a faster pace in the months ahead; that outlook index remained at 13. Manufacturers expected vendor lead times would shorten slightly; the outlook index lost six points to end at 4. Survey participants anticipated capital spending would grow at about the same pace as last month's expectations, pushing up that index up three points to 25. The index for future capacity utilization lost 12 points to end at a reading of 17.

Survey respondents looked for steady growth in hiring in the months ahead. That outlook index finished four points below last month's gauge at a reading of 19. The index for expected average wages settled at 23, 10 points below January's reading. Additionally, the expected average workweek index lost nine points to end at a reading of 5.

**Prices**

Prices of raw materials prices rose at an annualized 0.16 percent rate, slowing from the previous 0.59 percent rate. Prices of finished goods also rose at a slower pace this month, growing at a 0.29 annualized rate, compared to January's 0.51 percent pace.

For the six months ahead, survey participants anticipated input prices would grow more quickly, at an annualized 1.18 percent pace, following January's expectation for 1.38 percent annualized future price growth. Prices of finished goods were expected to rise at a 0.69 percent pace over the next six months. A month ago, the outlook was for 1.15 percent annualized price 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](mailto:Jeannette.Plamp@rich.frb.org)  
[www.richmondfed.org](http://www.richmondfed.org)

## Business Activity Indexes<sup>1,4</sup>

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Feb-16	Jan-16	Dec-15	Feb-16	Jan-16	Dec-15
Fifth District Manufacturing Index <sup>3</sup>	-4	2	6	--	--	--
<b>Company Conditions</b>						
Shipments	-11	-6	0	31	34	24
Volume of New Orders	-6	4	8	31	28	23
Backlog of Orders	-14	4	0	13	13	11
Capacity Utilization	-5	0	2	17	29	16
Vendor Lead-time	6	4	3	4	10	8
Number of Employees	9	9	12	19	23	16
Average Workweek	5	8	7	5	14	4
Wages	10	19	17	23	33	22
Capital Expenditures	--	--	--	25	22	23
<b>Inventory Levels</b>						
Finished Goods Inventories	20	24	27	--	--	--
Raw Materials Inventories	36	21	23	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	0.16	0.59	0.67	1.18	1.38	1.60
Prices Received	0.29	0.51	0.27	0.69	1.15	1.18

**Technical Notes:**

- <sup>1</sup> 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 83 firms.
- <sup>2</sup> Expectations refer to the time period six months out from the survey period.
- <sup>3</sup> 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.
- <sup>4</sup> Price changes are expressed as percent change, annualized.

