

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Expanded; New Orders and Shipments Increased

Overview

Fifth District manufacturing activity expanded in March, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders increased this month. Employment advanced at a slightly faster pace in March, while average wages grew moderately and the average workweek lengthened. Prices of raw materials and finished goods rose at a faster pace compared to last month.

Manufacturers anticipated robust business conditions during the next six months. Firms expected faster growth in shipments and in new orders in the six months ahead. Additionally, survey participants looked for increased capacity utilization and expected order backlogs to grow. Producers looked for vendor lead times to lengthen modestly.

Survey participants' outlook for the months ahead also included faster growth in average wages and the average workweek, with a pickup in hiring during the next six months. Over the next six months, manufacturers expected faster growth in prices paid and received.

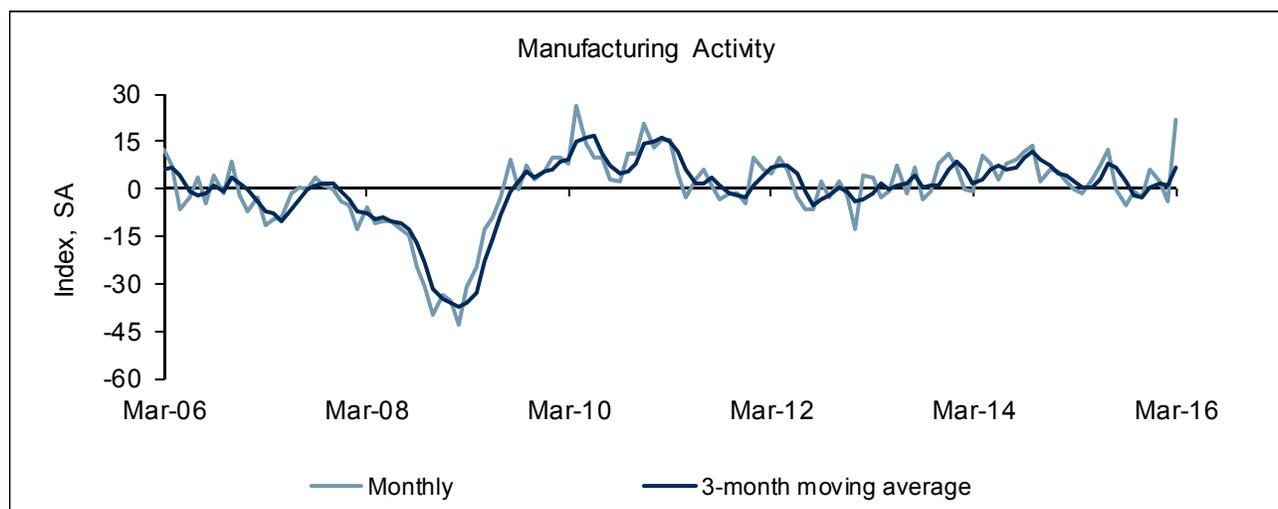
Current Activity

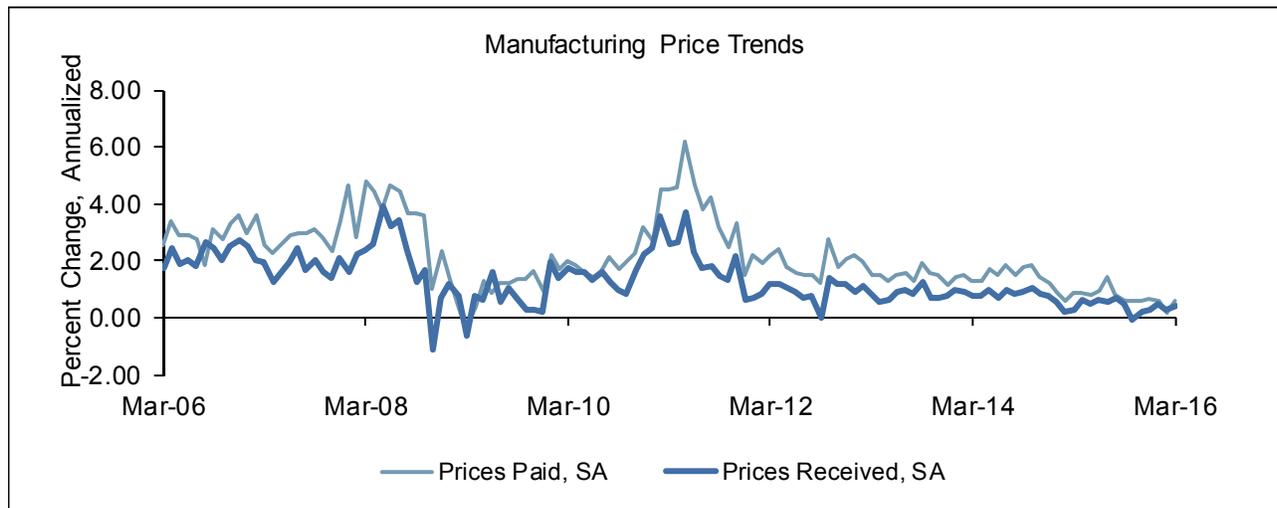
Overall, manufacturing activity increased markedly in March. The composite index for manufacturing climbed to a reading of 22, the highest since April 2010. The index for shipments added 38 points and the new orders index advanced 30 points, finishing at strong readings of 27 and 24, respectively. Manufacturing employment grew at a slightly faster pace this month; the employment indicator added two points to end at 11.

Backlogs flattened this month. However, the index moved up from last month's -14 reading to settle at 1. Capacity utilization grew at a faster pace in March, pushing the index up 22 points and ending at 17. Vendor lead time also leveled off to a reading of 0 this month. Finished goods inventories rose at a somewhat slower pace compared to a month ago. That index lost two points, ending at a reading of 18. Additionally, raw materials inventories increased at a slower pace in March. That gauge moved down to 21 from 36.

Employment

Manufacturing employment advanced at a slightly





faster pace this month. The March index edged up two points to a solid reading of 11. Average wages increased moderately, the index gained 10 points, moving to a reading of 20. Additionally, the average workweek lengthened, pushing the index up 11 points to end at 16.

Expectations

Manufacturers anticipated robust business conditions for the six months ahead. They expected a pickup in shipments and new orders. The indexes for expected shipments and new orders ended at strong readings of 37 and 45, compared to the month-ago readings of 31.

Survey participants expected backlogs to rise at a faster pace in the next six months. That outlook index climbed five points to end at 18. Producers expected vendor lead time to lengthen slightly; the outlook index lost one point to finish at 3. Firms anticipated capital spending would grow at a slower rate compared to last month's expectations. The expected capital spending index lost 10 points, ending at 15. The index for future capacity utilization gained nine points to end at a reading of 26.

Firms looked for a pickup in hiring in the months ahead. The index for expected employment remained at a solid reading of 19. The index for expected average wages added one point to end at 24, while the index for expected average workweek added five points to end at 10.

Prices

Prices of raw materials rose more quickly this month, advancing at an at an annualized 0.60 percent rate, compared to a rate of 0.16 percent previously. Prices of finished goods also rose at a faster pace this month, growing at a 0.40 annualized rate, compared to February's 0.29 percent pace.

For the six months ahead, survey respondents expected input prices would rise more quickly, at an annualized 0.95 percent pace. However, expectations were slightly below February's expectation for 1.18 percent growth. Finished goods prices were expected to rise at an annualized 0.77 percent rate, compared to the previous expectation for 0.69 percent growth.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Mar-16	Feb-16	Jan-16	Mar-16	Feb-16	Jan-16
Fifth District Manufacturing Index ³	22	-4	2	--	--	--
Company Conditions						
Shipments	27	-11	-6	37	31	34
Volume of New Orders	24	-6	4	45	31	28
Backlog of Orders	1	-14	4	18	13	13
Capacity Utilization	17	-5	0	26	17	29
Vendor Lead-time	0	6	4	3	4	10
Number of Employees	11	9	9	19	19	23
Average Workweek	16	5	8	10	5	14
Wages	20	10	19	24	23	33
Capital Expenditures	--	--	--	15	25	22
Inventory Levels						
Finished Goods Inventories	18	20	24	--	--	--
Raw Materials Inventories	21	36	21	--	--	--
Price Trends⁴						
Prices Paid	0.60	0.16	0.59	0.95	1.18	1.38
Prices Received	0.40	0.29	0.51	0.77	0.69	1.15

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 88 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.

