

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Expanded; New Orders Remained Solid, Wage Growth Moderated

Overview

Fifth District manufacturing activity continued to expand in April, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders remained solid. New hiring increased modestly, while the average workweek lengthened and average wage increases moderated. Prices of raw materials and finished goods rose at a faster pace compared to last month.

Manufacturers remained optimistic about future business conditions, although expectations were less buoyant compared to the past two months. Producers continued to look for solid growth in shipments and in new orders. Backlogs of new orders were expected to build more gradually in the next six months and capacity utilization was expected to increase at a slower rate. Survey participants expected unchanged vendor lead times.

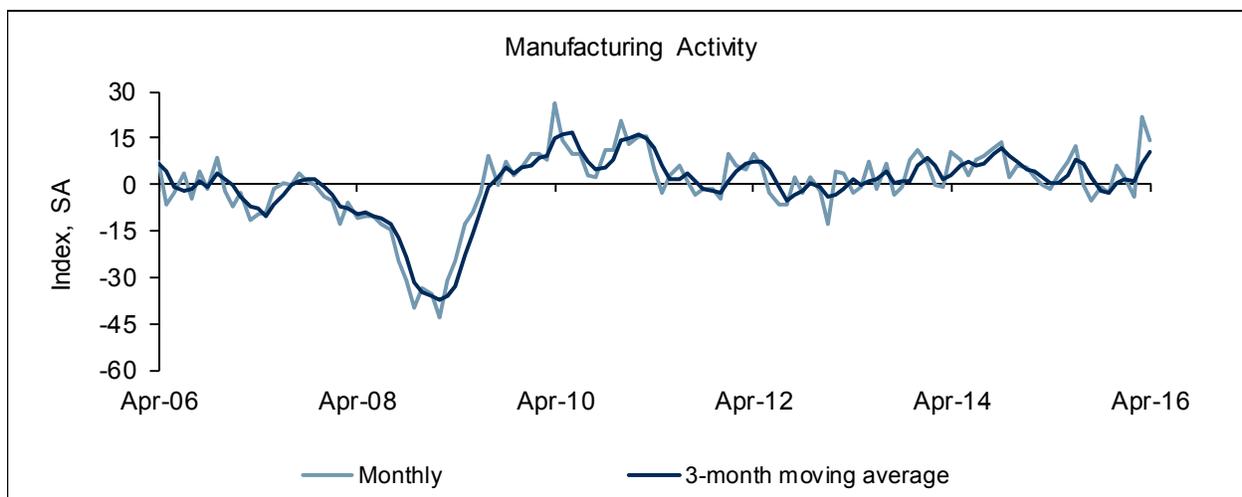
Firms expected modest growth in hiring during the next six months, while wage increases are anticipated to be more widespread. Survey

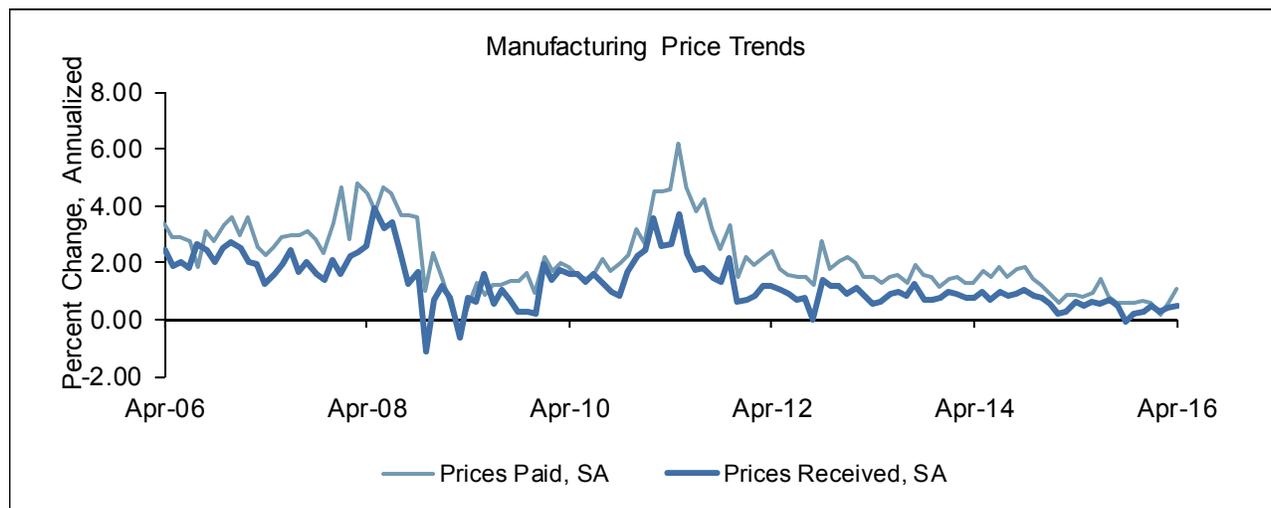
participants looked for little change in the average workweek. For the next six months, producers expected faster growth in prices paid and received.

Current Activity

Overall, manufacturing conditions remained firm in April, with some components softening from last month's robust readings. The composite index for manufacturing moved to a reading of 14, following last month's reading of 22. The index for shipments lost 13 points, while the new orders index shed six points, finishing at readings of 14 and 18, respectively. Manufacturing employment softened this month; the index settled at a modest reading of 8.

Backlogs rose at a faster pace this month, pushing the index up 10 points to a reading of 11. Capacity utilization improved in April. The index edged up one point to end at 18. The vendor lead time indicator remained nearly flat this month at a reading of 2. Finished goods inventories rose at a somewhat slower pace compared to a month ago. That index lost four points, ending at a reading of 14.





Additionally, raw materials inventories grew at a slower pace in April. That gauge moved down to 15 from 21.

Employment

Manufacturing hiring continued to grow at a modest pace in April. The index finished three points lower this month at 8. Average wage growth moderated; the index moved down five points to end at a reading of 15. The average workweek increased at a slower pace this month, with that index ending seven points below the previous month at 9.

Expectations

Producers remained positive about business conditions for the six months ahead. They expected solid growth in shipments and new orders. The indexes for expected shipments and new orders ended at readings of 22 and 24, respectively, below their outlook of a month ago.

Survey participants expected backlogs would build at a slower pace in the next six months. The outlook index finished 11 points below last month's gauge at a reading of 7. Manufacturers expected vendor lead times to remain the same; the indicator settled at a nearly flat reading of 2. Firms anticipated capital spending would grow at a faster rate; the expected capital spending index climbed seven points, ending at 22. The index for future capacity utilization lost 13 points to finish at 13.

Firms looked for steady growth in hiring in the months ahead. The index for expected employment

moved down nine points to a reading of 10. The index for expected average wages added three points to end at 27, while the index for expected average workweek flattened to a reading of 1.

Prices

Prices of raw materials rose more quickly this month, advancing at an annualized 1.07 percent rate, compared to a rate of 0.60 percent previously. Prices of finished goods rose at a somewhat faster pace this month, growing at a 0.45 annualized rate, slightly above March's 0.40 percent pace.

For the six months ahead, survey participants expected input prices would rise more quickly, at an annualized 1.36 percent pace. Finished goods prices were expected to rise at an annualized 0.81 percent rate, compared to the previous expectation for 0.77 percent growth.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Apr-16	Mar-16	Feb-16	Apr-16	Mar-16	Feb-16
Fifth District Manufacturing Index ³	14	22	-4	--	--	--
Company Conditions						
Shipments	14	27	-11	22	37	31
Volume of New Orders	18	24	-6	24	45	31
Backlog of Orders	11	1	-14	7	18	13
Capacity Utilization	18	17	-5	13	26	17
Vendor Lead-time	2	0	6	2	3	4
Number of Employees	8	11	9	10	19	19
Average Workweek	9	16	5	1	10	5
Wages	15	20	10	27	24	23
Capital Expenditures	--	--	--	22	15	25
Inventory Levels						
Finished Goods Inventories	14	18	20	--	--	--
Raw Materials Inventories	15	21	36	--	--	--
Price Trends ⁴						
Prices Paid	1.07	0.60	0.16	1.36	0.95	1.18
Prices Received	0.45	0.40	0.29	0.81	0.77	0.69

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 86 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.

