

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Sector Activity Slowed; New Orders Flattened, Backlogs Decreased*

### Overview

Fifth District manufacturing activity slowed in May, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and backlogs decreased, and order backlogs flattened this month. Manufacturing hiring rose modestly, while average wages continued to increase at a moderate pace. Prices of raw materials and finished goods rose more quickly in May, compared to last month.

Despite the soft current conditions, firms remained optimistic about future business conditions. Expectations in May were little changed from April readings. Firms expect moderate growth in shipments and in the volume of new orders in the six months ahead. In addition, manufacturers looked for rising backlogs of new orders. Producers anticipated a decline in capacity utilization and unchanged vendor lead times in the next six months.

Survey participants looked for modest growth in hiring during the next six months. Wage increases were expected to continue to be widespread. Producers anticipated little change in the average workweek. Looking ahead, manufacturers expected faster growth in prices paid and received.

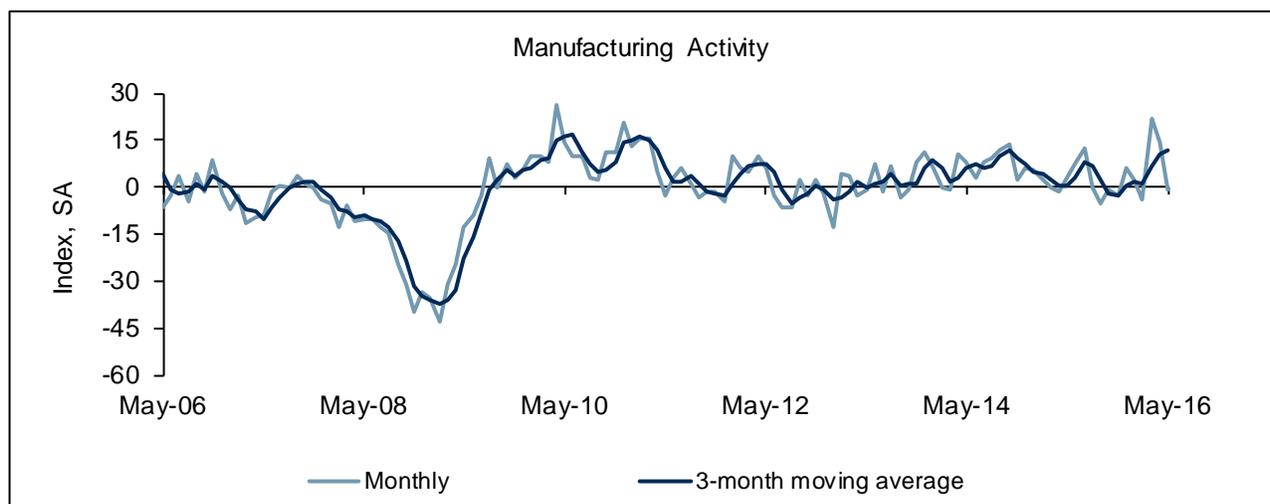
### Current Activity

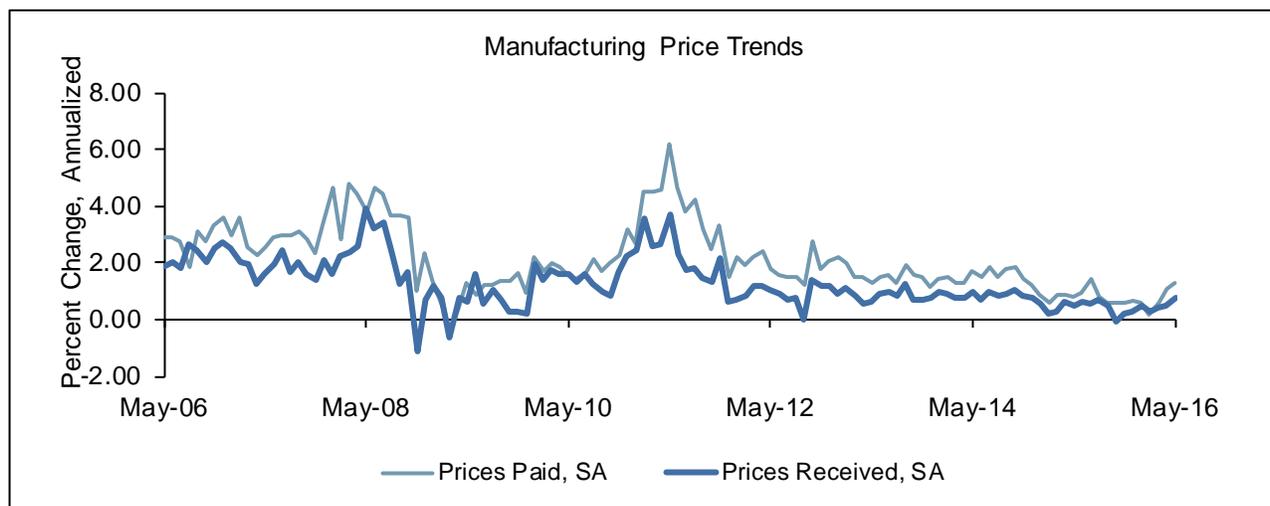
Overall, manufacturing conditions softened in May. The composite index for manufacturing flattened to a reading of -1. The index for shipments dropped sharply, decreasing 22 points to end at -8. Additionally, the new orders index fell 18 points, leveling off at 0. The manufacturing employment index remained at a modest reading this month; the indicator moved down four points to end at 4.

Backlogs decreased in May, with the index settling 24 points lower at a reading of -13. The capacity utilization index also slipped 24 points this month, pulling the index down to a reading of -6. Vendor lead time lengthened modestly, with that indicator gaining four points to end at 6. Finished goods inventories rose across more firms compared to a month ago – the index gained five points, ending at a reading of 19. Growth in raw materials inventories also broadened in May, with that indicator adding 10 points to end the survey period at 25.

### Employment

Manufacturing hiring continued to grow at a modest pace in May; however, the index slipped four points to finish at a reading of 4. Average wage growth





remained on pace with last month; that index held steady at a reading of 15. The average workweek index shed three points this month to end at 6.

**Expectations**

Looking ahead six months, producers remained upbeat about future business conditions, although overall expectations remained suppressed. Manufacturers looked for moderate growth in shipments and new orders. The indexes for expected shipments and new orders ended at readings of 24 and 20, respectively.

Survey participants expected backlogs would build up in the next six months. The outlook index gained three points to finish at a reading of 10. Firms expected vendor lead times to remain the same; the outlook indicator settled at -1. Manufacturers looked for rising capital expenditures over the next six months; however, the expected index softened by 12 points, ending at 10. The May index for future capacity utilization remained solid, only softening two points to finish at 11.

Producers looked for hiring to grow at a slower pace in the months ahead. The expectations index for the number of employees moved down eight points to a nearly flat reading of 2. Additionally, the index for expected average wages slipped four points to end at 23, while the index for the expected average workweek edged up to a reading of 3.

**Prices**

Prices of raw materials rose at an annualized 1.27 percent rate, faster than April's 1.07 percent pace.

Prices of finished goods rose at a 0.77 annualized rate, slightly faster than April's 0.45 percent pace.

For the six months ahead, survey participants anticipated input prices would grow more quickly, at an annualized 1.47 percent pace, following April's expectation for 1.36 percent growth. Finished goods prices were expected to rise at an annualized 0.89 percent rate, compared to the previous expectation for 0.81 percent growth.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	May-16	Apr-16	Mar-16	May-16	Apr-16	Mar-16
Fifth District Manufacturing Index <sup>3</sup>	-1	14	22	--	--	--
Company Conditions						
Shipments	-8	14	27	24	22	37
Volume of New Orders	0	18	24	20	24	45
Backlog of Orders	-13	11	1	10	7	18
Capacity Utilization	-6	18	17	11	13	26
Vendor Lead-time	6	2	0	-1	2	3
Number of Employees	4	8	11	2	10	19
Average Workweek	6	9	16	3	1	10
Wages	15	15	20	23	27	24
Capital Expenditures	--	--	--	10	22	15
Inventory Levels						
Finished Goods Inventories	19	14	18	--	--	--
Raw Materials Inventories	25	15	21	--	--	--
Price Trends <sup>4</sup>						
Prices Paid	1.27	1.07	0.60	1.47	1.36	0.95
Prices Received	0.77	0.45	0.40	0.89	0.81	0.77

### 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 82 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.