

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Declined; New Orders Decreased, Firms Continued to Increase Wages

Overview

Fifth District manufacturing activity weakened in June, according to the most recent survey by the Federal Reserve Bank of Richmond. New orders and shipments declined this month, while backlogs decreased further compared to last month. Manufacturing employment softened, while firms continued to increase wages. Prices of raw materials rose somewhat more slowly this month and finished goods prices rose slightly faster in June, compared to last month.

Manufacturers' positive expectations faded in June. Producers anticipated mild growth in shipments and in the volume of new orders in the next six months. Compared to last month's outlook, backlogs and capacity utilization were expected to level off. Firms looked for vendor lead times to lengthen slightly during the six months ahead.

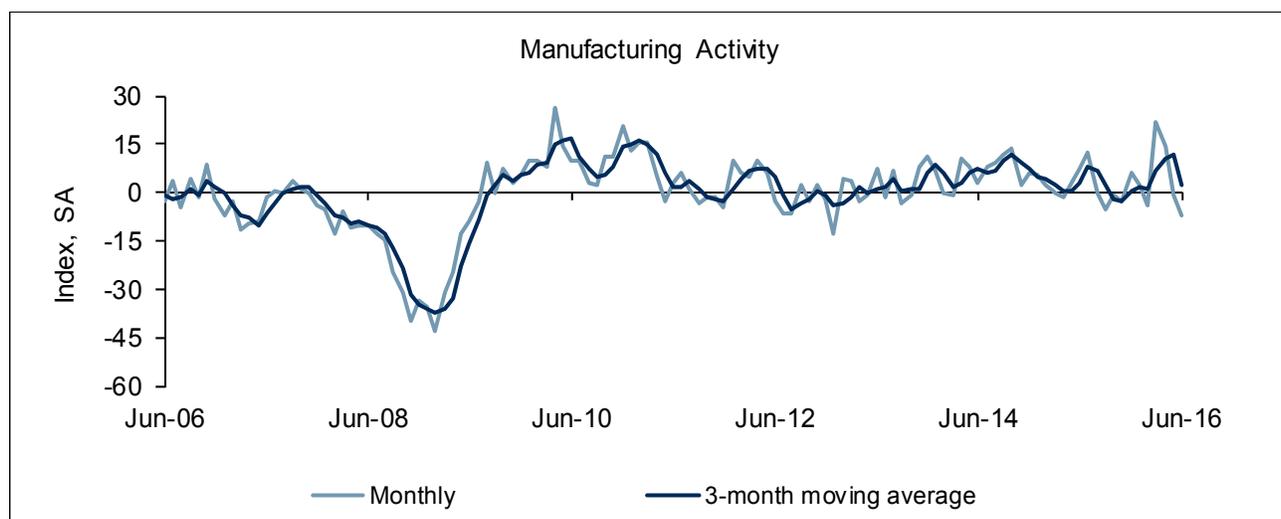
Looking ahead, more survey participants expected slower growth in the number of employees and a shorter average workweek. However, an increasing number of firms anticipated wage increases.

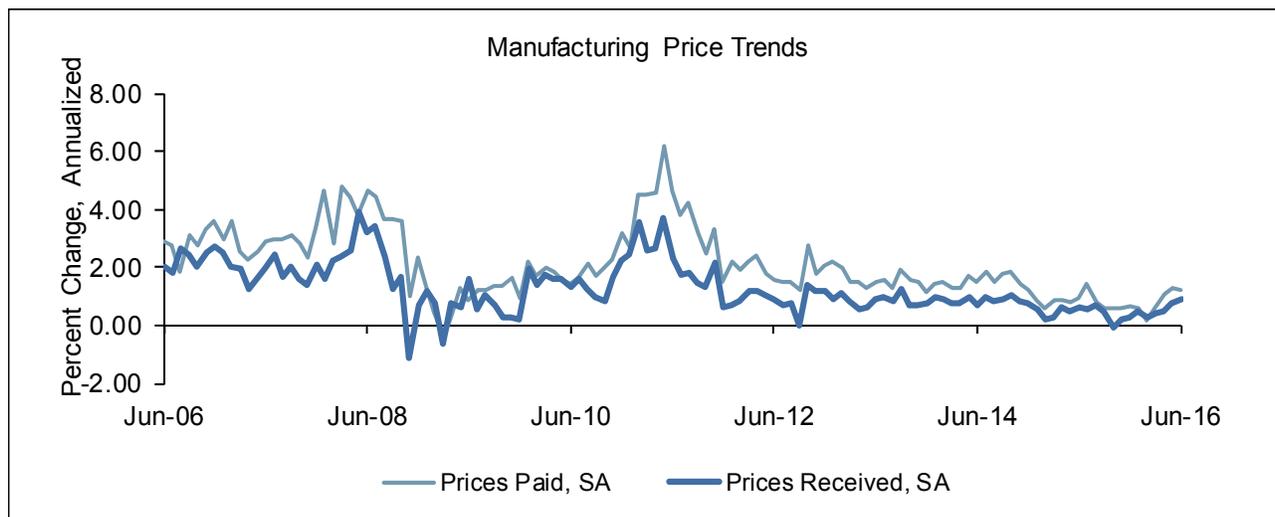
Producers expected faster growth in prices paid and received.

Current Activity

Overall, manufacturing conditions weakened in June. The composite index for manufacturing dropped to a reading of -7. The indicators for shipments and order backlogs remained in negative territory this month. Those indexes ended at readings of -3 and -17, respectively. The volume of new orders dropped sharply in June; the index lost 14 points, ending at -14. Additionally, the third component of the composite index, the employment index, flattened this month. That indicator moved down five points to end at -1.

The capacity utilization index slipped four points this month, pulling the index down to a reading of -10. Vendor lead time was unchanged compared to last month, with that indicator moving down five points to end at 1. Finished goods inventories rose across more firms compared to a month ago; that index gained eight points, ending at a reading of 27. Growth in raw materials inventories broadened at a





slightly faster pace in June, with that indicator adding one point to end the survey period at 26.

Employment

Manufacturing hiring softened in June. The index leveled off to a reading of -1, compared to last month's reading of 4. The average workweek index dropped 10 points this month to end at -4. Average wage growth remained on pace with last month; that index slipped only one point to end at a reading of 14.

Expectations

Looking ahead six months, producers were less confident about future business conditions. The outlook indexes for shipments and new orders weakened compared to last month's readings, ending at readings of 9 and 13, respectively.

Firms looked for backlogs to level off during the next six months. The outlook index dropped nine points to finish at 1. Survey participants expected vendor lead time to lengthen slightly in the months ahead; the outlook indicator added four points to end at 3. Producers anticipated rising capital expenditures over the next six months. The expected index added four points, ending at 14. The June index for future capacity utilization softened, moving down nine points to finish at a nearly flat reading of 2.

Manufacturers expected hiring to slow in the six months ahead. The expectations index for the number of employees decreased, losing three points to end at -1, while the index for expected average

wages added five points to end at 28. The index for the expected average workweek moved down to a reading of -8, following last month's reading of 3.

Prices

Prices of raw materials rose at an annualized 1.25 percent rate, somewhat slower than May's 1.27 percent pace. Prices of finished goods rose at a 0.88 annualized rate, slightly faster than May's 0.77 percent pace.

For the six months ahead, survey participants anticipated input prices would grow more quickly, at an annualized 1.38 percent pace, following May's expectation for 1.47 percent growth. Finished goods prices were expected to rise at an annualized 1.11 percent rate, compared to the previous expectation for 0.89 percent 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
www.richmondfed.org

Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Jun-16	May-16	Apr-16	Jun-16	May-16	Apr-16
Fifth District Manufacturing Index ³	-7	-1	14	--	--	--
Company Conditions						
Shipments	-3	-8	14	9	24	22
Volume of New Orders	-14	0	18	13	20	24
Backlog of Orders	-17	-13	11	1	10	7
Capacity Utilization	-10	-6	18	2	11	13
Vendor Lead-time	1	6	2	3	-1	2
Number of Employees	-1	4	8	-1	2	10
Average Workweek	-4	6	9	-8	3	1
Wages	14	15	15	28	23	27
Capital Expenditures	--	--	--	14	10	22
Inventory Levels						
Finished Goods Inventories	27	19	14	--	--	--
Raw Materials Inventories	26	25	15	--	--	--
Price Trends⁴						
Prices Paid	1.25	1.27	1.07	1.38	1.47	1.36
Prices Received	0.88	0.77	0.45	1.11	0.89	0.81

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 80 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.

