

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Sector Activity Improved; New Orders Increased, Mild Employment Growth*

### Overview

Fifth District manufacturing activity improved in July, according to the most recent survey by the Federal Reserve Bank of Richmond.\* New orders and shipments increased this month, while backlogs flattened. Employment rose modestly, while firms continue to report wage increases. Prices of raw materials and finished goods rose at a slower pace in July, compared to last month.

Manufacturers looked for better business conditions during the next six months. Firms expected moderate growth in shipments and in the volume of new orders in the six months ahead. In addition, survey participants anticipated increased capacity utilization and expected backlogs to rise. Expectations were for little change in vendor lead times during the six months ahead.

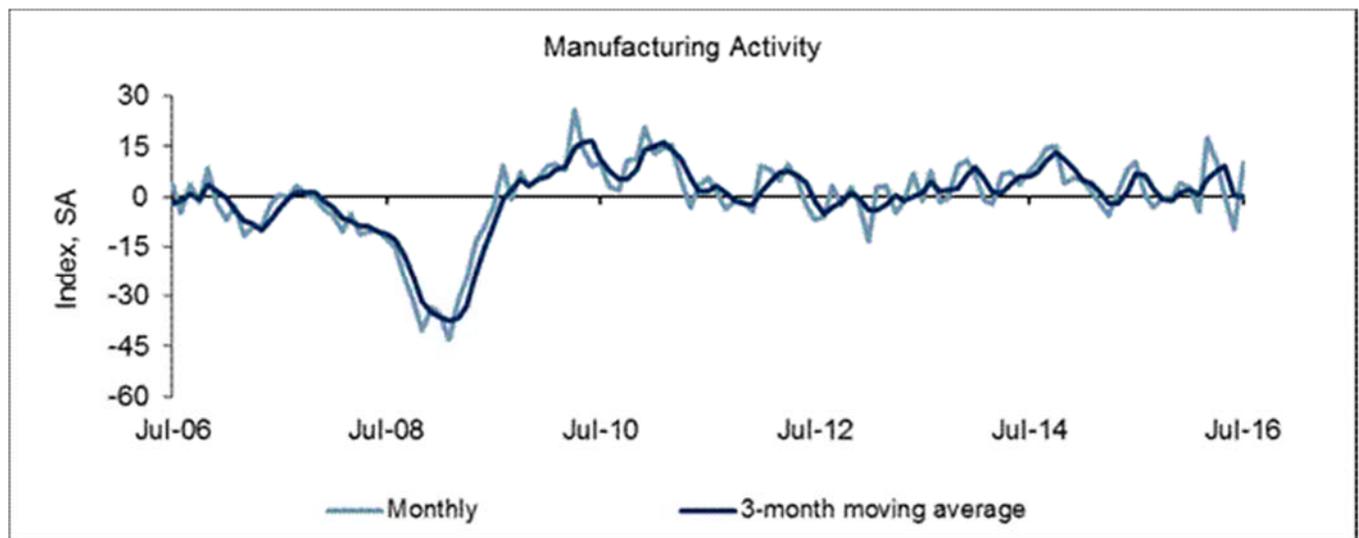
Survey participants' outlook for the months ahead included mild growth in the number of employees. Future wage increases were more prominent in the July expectations index. Firms expected faster growth

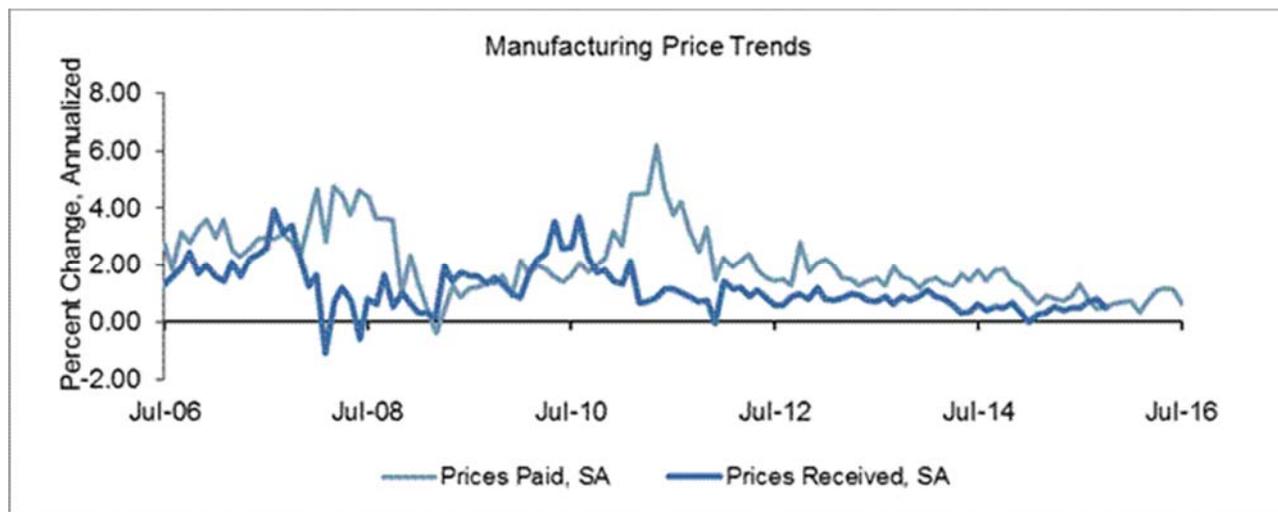
in prices paid, however, anticipating somewhat slower growth in prices received.

### Current Activity

Overall, manufacturing activity increased in July. The composite index for manufacturing climbed 20 points to a reading of 10. Additionally, the indicators for shipments and new orders increased this month. Those indexes ended at readings of 7 and 15, respectively. The orders backlog index flattened in July, the index moved up 13 points to end at 1. The manufacturing employment index rose modestly this month. That indicator gained five points to end at 6.

The capacity utilization index advanced 14 points in July, pulling the index up to a reading of 3. Vendor lead time lengthened this month, with that indicator moving up eight points to end at 10. Finished goods inventories rose across fewer firms compared to a month ago; that index moved down 11 points, ending at a reading of 15. Growth in raw materials inventories continued in July, however that indicator lost three points to end the survey period at 23.





**Employment**

Manufacturing employment strengthened mildly in July. The index moved up five points ending at a reading of 6. The number of firms reporting average wage increases remained on pace from June, with that index ending one point below the previous month at 14. The average workweek index flattened to a reading of one.

**Expectations**

Manufacturers anticipated positive business conditions during the next six months. The outlook indexes for shipments and new orders strengthened compared to last month, ending at readings of 19 and 23, respectively.

Survey participants expected backlogs to rise during the next six months. The outlook index finished five points higher in July, at a reading of 10. Producers expected vendor lead time to change little in the months ahead; the outlook indicator lost one point to end at 2. Firms anticipated rising capital spending over the next six months. The July indicator added three points, ending at 17. Manufacturers looked for increased capacity utilization. That outlook index advanced 10 points to finish at 14.

Firms looked for modest hiring growth in the six months ahead. The expectations index for employment added five points to end at 7. The index for expected average wages increased sharply, adding 25 points to end at 40, while the expected average workweek indicator flattened to a reading of 2.

**Prices**

Prices of raw materials rose at an annualized 0.64 percent rate, slower than June’s 1.14 percent pace. Additionally, prices of finished goods rose at a slightly slower pace, at an annualized 0.48 percent rate.

For the six months ahead, survey participants anticipated input prices would grow more quickly, at an annualized 1.17 percent pace. Finished goods prices were expected to rise at an annualized 0.46 percent rate.

*\* Seasonal adjustment factors were recalculated this month and applied to historical data to better reflect current economic trends. Comparisons to prior months’ indexes are made to the revised series. New factors will be calculated annually.*

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**Business Activity Indexes<sup>1,5</sup>**

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Jul-16	Jun-16	May-16	Jul-16	Jun-16	May-16
Fifth District Manufacturing Index <sup>3</sup>	10	-10	0	--	--	--
<b>Company Conditions</b>						
Shipments	7	-8	-3	19	11	26
Volume of New Orders	15	-17	0	23	13	23
Backlog of Orders	1	-12	-12	10	5	11
Capacity Utilization	3	-11	-5	14	4	14
Vendor Lead-time	10	2	5	2	3	1
Number of Employees	6	1	4	7	2	5
Average Workweek	1	-7	4	2	-7	4
Wages	14	15	15	40	25	25
Capital Expenditures	--	--	--	17	15	11
<b>Inventory Levels</b>						
Finished Goods Inventories	15	26	19	--	--	--
Raw Materials Inventories	23	26	25	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	0.64	1.14	1.18	1.17	1.32	1.40
Prices Received	0.48	0.79	0.71	0.46	1.04	1.00

**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 77 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.
- This table includes recalculation of seasonal adjustment factors to better reflect current economic trends. New factors will be calculated annually. Comparisons to prior months are made to the revised data series.