

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

### *Manufacturing Sector Activity Declined; New Orders and Backlogs Decreased*

#### Overview

Fifth District manufacturing activity declined in August, according to the most recent survey by the Federal Reserve Bank of Richmond. New orders and shipments decreased this month, while backlogs fell. Hiring increases in the sector expanded modestly across firms, and wage increases were more widespread. Raw materials prices rose at a somewhat faster pace in August, while prices of finished goods rose at a slightly slower pace.

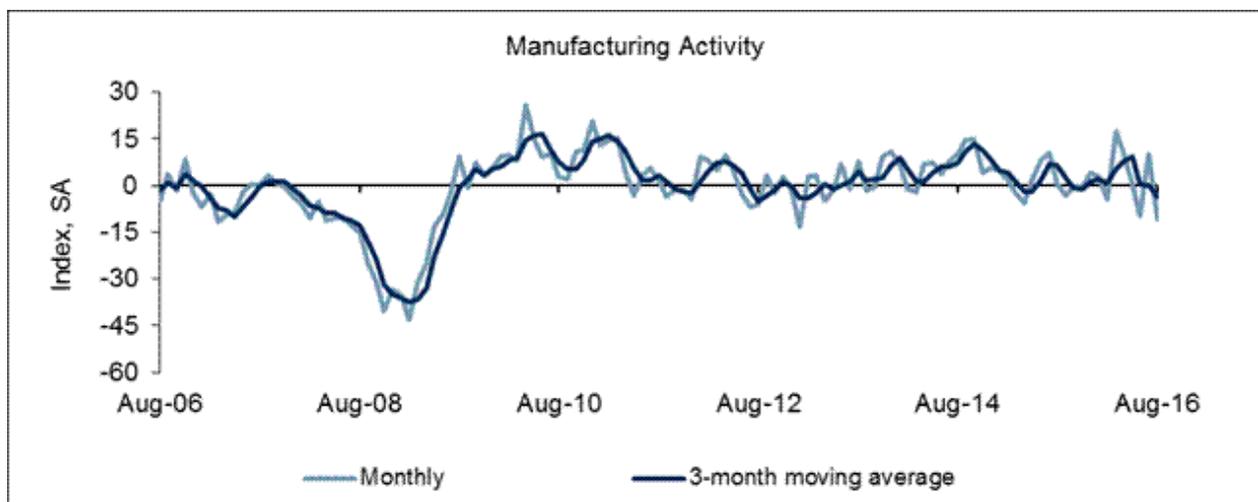
Looking ahead six months, producers anticipated more robust business conditions. Manufacturers expected strong growth in shipments and in the volume of new orders. Survey participants looked for backlogs to rise, and expected longer vendor lead times. Expectations were for increased capacity utilization during the next six months.

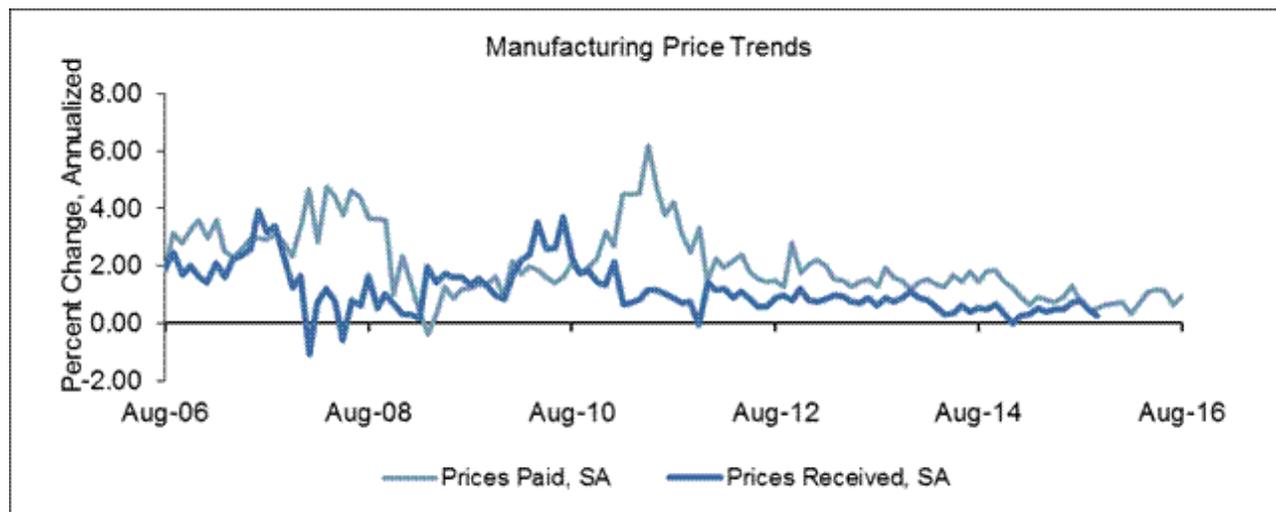
Hiring expectations across firms were strong for the months ahead, and producers anticipated future wage increases. Firms expected little change in prices paid, however anticipated somewhat faster growth in prices received in the next six months.

#### Current Activity

Overall, manufacturing activity declined in August, with the composite index dropping to a reading of -11, following last month's reading of 10. The indicators for shipments and new orders decreased sharply this month. The index for shipments lost 21 points, ending at a reading of -14, while the index for new orders fell 35 points to -20. In addition, the index for order backlogs fell to a reading of -21, following last month's reading of 1. In contrast, the manufacturing employment index changed little from last month, maintaining a positive reading. That indicator gained one point to end at 7.

Capacity utilization weakened in August, the index lost 22 points to end at a reading of -19. Additionally, the vendor lead time indicator moved down five points to end at 5. Finished goods inventories rose across more firms compared to a month ago, that index moved up nine points, ending at a reading of 24. Growth in raw materials inventories continued in August, with that index adding four points to end the survey period at 27.





### Employment

The manufacturing employment index changed little in August. The indicator added one point to end at a reading of 7. The number of firms reporting average wage increases increased this month, with that index adding seven points to end at 21. The average workweek index softened to a reading of -4.

### Expectations

Looking ahead six months, producers anticipated more robust business conditions. The outlook indexes for shipments and new orders strengthened compared to last month, ending at readings of 41 and 33, respectively.

Manufacturers looked for rising backlogs during the next six months. The outlook index finished eight points higher in August, at a reading of 18. Survey participants expected vendor lead times to lengthen in the months ahead; the outlook indicator gained eight points to end at 10. Manufacturers looked for increased capacity utilization. That outlook index strengthened 15 points to finish at 29. Firms anticipated rising capital spending over the next six months. That indicator lost two points, ending at 15.

Planned increases in hiring during the next six months were more widespread. The expectations index for employment added seven points to end at 14. The index for expected average wages remained at a strong reading, only slipping two points to end at 38. The expected average workweek indicator advanced 12 points to a reading of 14.

### Prices

Prices of raw materials rose at an annualized 0.96 percent rate, somewhat faster than July's 0.64 percent pace. Prices of finished goods rose at a slightly slower pace, at an annualized 0.26 percent rate.

For the six months ahead, survey participants anticipated input prices would grow at a 0.96 percent pace, the same pace as the current prices paid reading. Finished goods prices were expected to rise at an annualized 0.63 percent rate.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Aug-16	Jul-16	Jun-16	Aug-16	Jul-16	Jun-16
Fifth District Manufacturing Index <sup>3</sup>	-11	10	-10	--	--	--
<b>Company Conditions</b>						
Shipments	-14	7	-8	41	19	11
Volume of New Orders	-20	15	-17	33	23	13
Backlog of Orders	-21	1	-12	18	10	5
Capacity Utilization	-19	3	-11	29	14	4
Vendor Lead-time	5	10	2	10	2	3
Number of Employees	7	6	1	14	7	2
Average Workweek	-4	1	-7	14	2	-7
Wages	21	14	15	38	40	25
Capital Expenditures	--	--	--	15	17	15
<b>Inventory Levels</b>						
Finished Goods Inventories	24	15	26	--	--	--
Raw Materials Inventories	27	23	26	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	0.96	0.64	1.14	0.96	1.17	1.32
Prices Received	0.26	0.48	0.79	0.63	0.46	1.04

**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 76 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.



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