

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Sector Activity Still Soft in September; Employment Index at 36-Month Low*

### Overview

Manufacturing activity in the Fifth District continued to soften in September, but somewhat less so than in August, according to the Richmond Fed's latest survey. New orders and shipments decreased this month at a slower pace, while backlogs decreased at about the same pace as last month. Hiring activity weakened across firms and wage increases were less widespread. Although raw materials prices rose at a somewhat faster pace in September, prices of finished goods barely increased in the month.

Looking ahead six months, producers' expectations about future business conditions have softened compared to last month's readings. Manufacturers expected softer growth in shipments and in the volume of new orders as well as backlogs of orders. Fewer survey participants expected vendor lead times to lengthen. Expectations for increased capacity utilization softened somewhat.

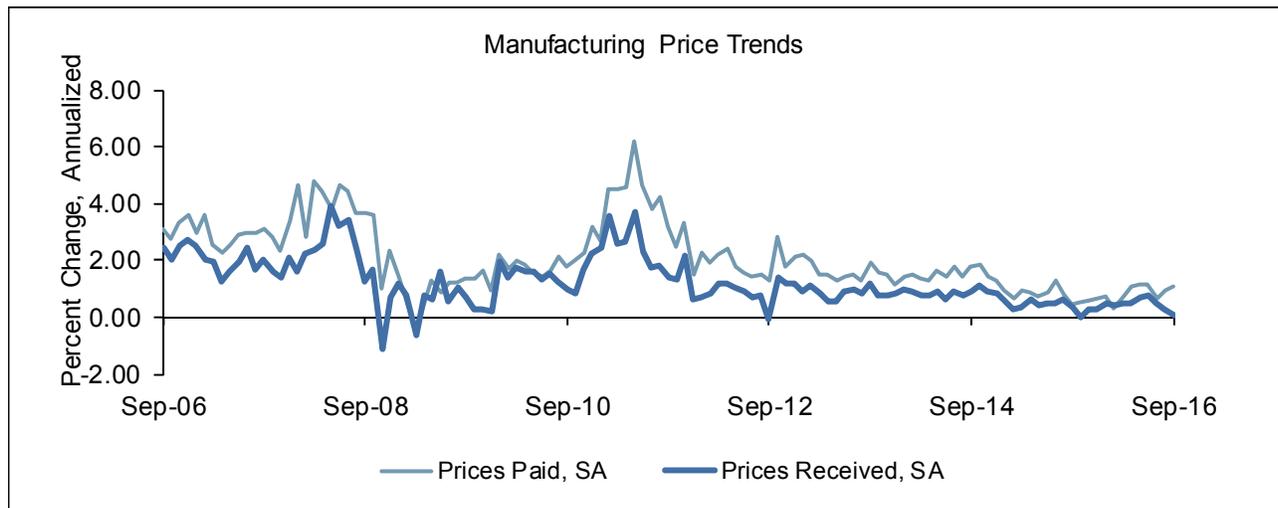
Manufacturing firms anticipate more modest hiring and continued wage increases in the months ahead. Firms expected faster growth in prices received and prices paid in the next six months.

### Current Activity

Overall manufacturing activity, as measured by the composite index, gained three points but continued to indicate some contraction, with a reading of -8 following last month's reading of -11. The indicators for shipments and new orders increased this month but remained negative. The index for shipments gained 10 points, ending at a reading of -4, while the index for new orders rose 13 points to -7. In contrast, the manufacturing employment index fell into negative territory for the first time in three years, with a reading of -13.

The extent of weakness in capacity utilization across firms eased somewhat in September, as the index gained eight points to end at a reading of -11. The index for order backlogs was little changed with a reading of -20, following last month's reading of -21. The vendor lead time indicator remained positive and unchanged at 5. Indicators for inventories were somewhat lower in September but still positive, suggesting that inventory increases were a little less widespread compared to a month ago. The raw materials inventory index fell two points to 25 and the finished goods inventory index fell by four to 20.





**Employment**

Hiring activity at District manufacturing firms weakened in September. The manufacturing employment indicator lost 20 points to end at a reading of -7, while the average workweek index improved from a reading of -4 in August to 1 in September. The wage index lost eight points to end at a reading of 13 for the month.

**Expectations**

This month's survey suggests that producers were less optimistic about anticipated business conditions relative to their assessment last month. The outlook indexes for shipments and new orders decreased in September, ending at readings of 26 and 29, respectively.

Manufacturers looked for backlogs to level off during the next six months. The outlook index finished five points lower in September, at a reading of 13. Similarly, fewer firms expected vendor lead times to lengthen in the months ahead; the outlook indicator lost three points to end at 7. The September index for expected capacity utilization declined by seven points to a reading of 22, while little change was anticipated in capital expenditures. That outlook index fell just two points to finish at 13.

Planned increases in hiring during the next six months were less widespread in September. The expectations index for employment lost 11 points to end at 3, while the index for expected average wages slipped six points to end at 32. The expected average workweek indicator also declined by four points to a reading of 10.

**Prices**

Prices of raw materials rose at an annualized 1.10 percent rate, somewhat faster than August's 0.96 percent pace. Prices of finished goods decelerated sharply, as the index registered an annualized 0.07 percent rate.

For the six months ahead, survey participants anticipated input prices would grow at a 1.42 percent pace, while finished goods prices were expected to rise at an annualized 0.96 percent rate.

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

| General Business Assessment                     | Current Conditions |        |        | Expectations <sup>2</sup> |        |        |
|---|--------------------|--------|--------|---------------------------|--------|--------|
|   | Sep-16             | Aug-16 | Jul-16 | Sep-16                    | Aug-16 | Jul-16 |
| Fifth District Manufacturing Index <sup>3</sup> | -8                 | -11    | 10     | --                        | --     | --     |
| <b>Company Conditions</b>                       |                    |        |        |                           |        |        |
| Shipments                                       | -4                 | -14    | 7      | 26                        | 41     | 19     |
| Volume of New Orders                            | -7                 | -20    | 15     | 29                        | 33     | 23     |
| Backlog of Orders                               | -20                | -21    | 1      | 13                        | 18     | 10     |
| Capacity Utilization                            | -11                | -19    | 3      | 22                        | 29     | 14     |
| Vendor Lead-time                                | 5                  | 5      | 10     | 7                         | 10     | 2      |
| Number of Employees                             | -13                | 7      | 6      | 3                         | 14     | 7      |
| Average Workweek                                | 1                  | -4     | 1      | 10                        | 14     | 2      |
| Wages   | 13                 | 21     | 14     | 32                        | 38     | 40     |
| Capital Expenditures                            | --                 | --     | --     | 13                        | 15     | 17     |
| <b>Inventory Levels</b>                         |                    |        |        |                           |        |        |
| Finished Goods Inventories                      | 20                 | 24     | 15     | --                        | --     | --     |
| Raw Materials Inventories                       | 25                 | 27     | 23     | --                        | --     | --     |
| <b>Price Trends<sup>4</sup></b>                 |                    |        |        |                           |        |        |
| Prices Paid                                     | 1.10               | 0.96   | 0.64   | 1.42                      | 0.96   | 1.17   |
| Prices Received                                 | 0.07               | 0.26   | 0.48   | 0.96                      | 0.63   | 0.46   |

**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 90 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.

