

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

### *Manufacturing Sector Activity Strengthened; Hiring Softened, New Orders Rose*

#### Overview

Fifth District manufacturing activity expanded in December. The volume of new orders picked up compared to last month and shipments increased. Manufacturing employment softened, while wage increases were more widespread across firms. Prices of raw materials rose more quickly in December, while prices of finished goods rose at a somewhat slower rate.

Manufacturers were optimistic about future business conditions. Firms expected robust growth in shipments and in the volume of new orders. Additionally, survey participants looked for backlogs to build more quickly in the months ahead and anticipated increased capacity utilization. Expectations were for slightly longer vendor lead times.

Producers anticipated an increase in hiring along with broader wage gains during the next six months, while they planned for longer workweeks. For the six months ahead, producers expected faster growth in prices paid and prices received.

#### Current Activity

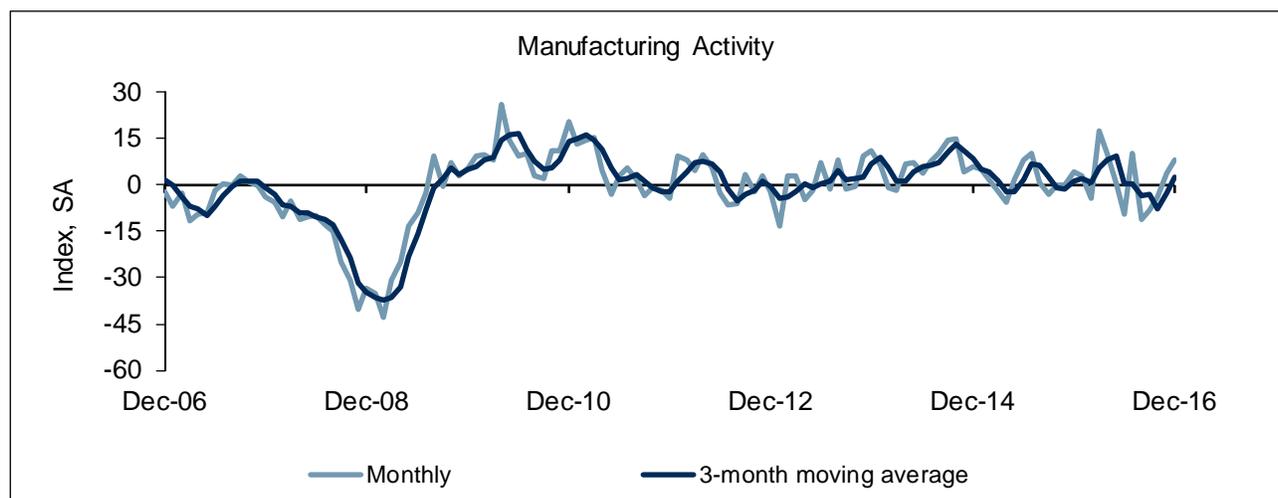
Overall manufacturing conditions strengthened this month. The composite index for manufacturing

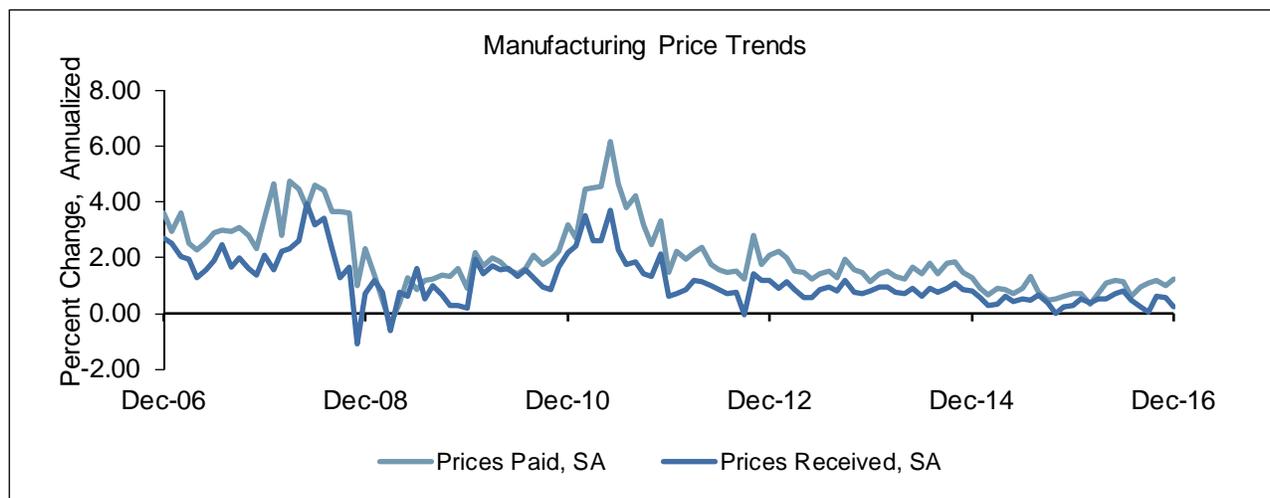
moved to a reading of eight from last month's reading of 4. The index for shipments advanced 11 points to end at 12, and the new orders indicator added five points also ending at a reading of 12. Manufacturing employment softened this month; the December index settled at -1.

Backlogs rose at a faster pace this month; the index jumped up 20 points, ending at 8. Additionally, capacity utilization grew at a faster pace, moving the index up 11 points to a reading of 10. Vendor lead time lengthened this month, moving the index up five points to 9. More firms reported a building up of finished goods inventories in December; however, the indicator ended seven points lower than a month ago at 11. The raw materials inventories index added two points to end at 25.

#### Employment

The manufacturing employment index softened this month; the December gauge flattened to a reading of -1. The number of firms reporting average wage increases remained nearly on pace with a month ago, with that index finishing three points higher at 19. However, more firms reported longer average workweeks compared to the previous month, with that index moving up eight points to end at 12.





**Expectations**

Survey participants looked for robust business conditions during the next six months. They expected a pick-up in shipments and new orders. The indexes for expected shipments and new orders ended at readings of 45 and 47, respectively.

Manufacturers expected backlogs would build at a faster pace for the next six months. The December outlook index added five points to finish at a reading of 21. Firms expected vendor lead times would lengthen; the outlook index gained six points to end at 11. Producers anticipated capital spending would grow over the next six months; however the expected index ended at 20, seven points lower than last month. The December index for future capacity utilization advanced nine points, ending at a reading of 37.

Expectations for increased hiring were more widespread across manufacturing firms, pushing the outlook index up seven points to 22. The index for expected average wages strengthened, finishing at 36, while the expected average workweek gauge moved up eight points to a reading of 14.

**Prices**

Prices of raw materials rose more quickly this month, advancing at an annualized 1.23 percent rate, compared to a rate of 1.00 percent previously. Prices of finished goods rose at a 0.22 annualized rate, somewhat slower than November’s 0.57 percent pace.

For the six months ahead, firms expected input prices would rise more quickly, at an annualized 1.30 percent pace, while finished goods prices were expected to rise at an annualized 1.46 percent rate.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Dec-16	Nov-16	Oct-16	Dec-16	Nov-16	Oct-16
Fifth District Manufacturing Index <sup>3</sup>	8	4	-4	--	--	--
<b>Company Conditions</b>						
Shipments	12	1	2	45	41	35
Volume of New Orders	12	7	-12	47	38	32
Backlog of Orders	8	-12	-11	21	16	18
Capacity Utilization	10	-1	-5	37	28	28
Vendor Lead Time	9	4	7	11	5	12
Number of Employees	-1	5	3	22	15	20
Average Workweek	12	4	-3	14	6	6
Wages	19	16	18	36	26	29
Capital Expenditures	--	--	--	20	27	19
<b>Inventory Levels</b>						
Finished Goods Inventories	11	18	18	--	--	--
Raw Materials Inventories	25	23	22	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	1.23	1.00	1.17	1.30	1.17	1.51
Prices Received	0.22	0.57	0.64	1.46	0.91	0.71

**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 107 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.