

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Picks Up the Pace in January; Expectations Upbeat

Overview

Manufacturing activity in the central Atlantic region advanced somewhat faster in January after firming somewhat in December, according to the Richmond Fed’s latest survey. All broad indicators—shipments, new orders and employment—landed in positive territory, with manufacturers noting their first increase in worker numbers since September 2011. Most other indicators were also positive, including capacity utilization. Only backlogs inched lower. Delivery times were virtually unchanged, while finished goods inventories grew at a slower rate.

Looking forward, assessments of business prospects for the next six months were more optimistic in January. Contacts at more firms anticipated that shipments, new orders, backlogs, capacity utilization, and capital expenditures would grow more quickly during the next six months.

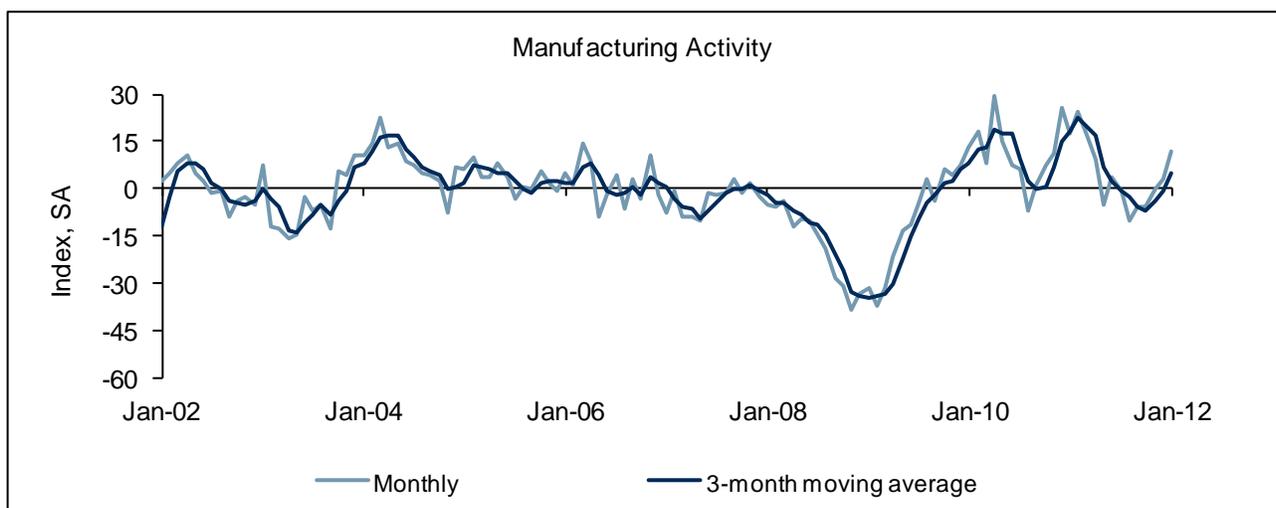
Survey assessments of current prices revealed that raw materials prices grew at a somewhat quicker rate in January than a month ago, while finished goods prices grew at a slightly slower pace. Over the next six months, respondents

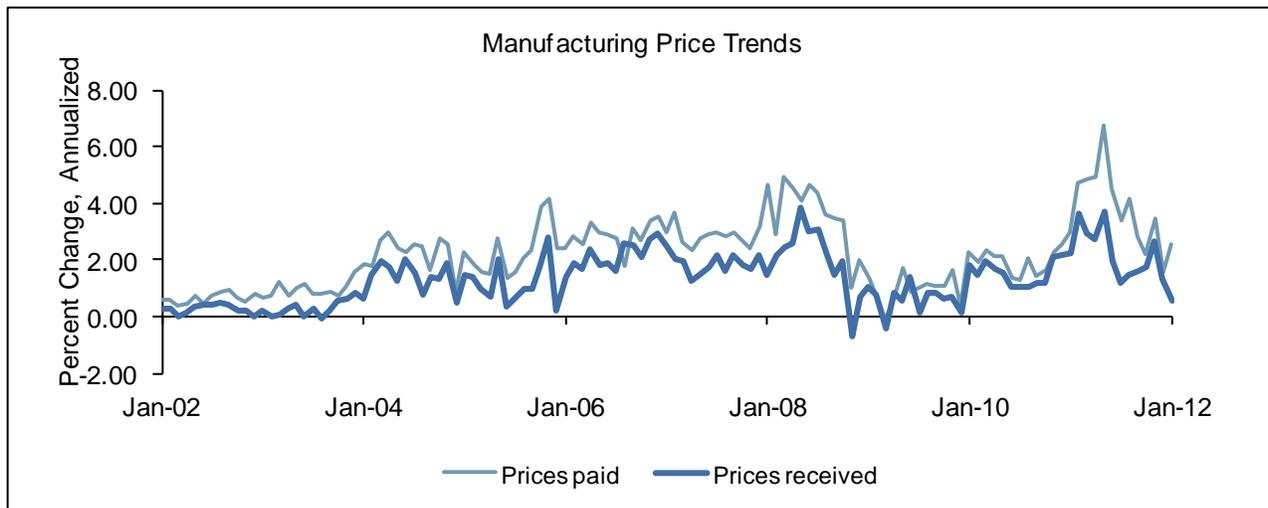
expected growth in raw materials prices to rise at a somewhat quicker pace than they had anticipated last month, while they expected price growth in finished goods to grow at a slower rate.

Current Activity

In January, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—increased nine points to 12 from December’s reading of 3. Among the index’s components, shipments gained fourteen points to 17 and new orders doubled, picking up seven points to finish at 14. The jobs index picked up eight points to 4.

Most other indicators also suggested stronger activity. The capacity utilization indicator advanced eight points to finish at 8, while the index for backlogs of orders gave up five points to end at -4. Additionally, the delivery times index was almost unchanged at 3, while our gauges for inventories were mixed in January. The finished goods inventories index lost fourteen points to 9, while the raw materials inventory index gained five points to end at 18.





Employment

Labor market conditions at District plants strengthened in January. The manufacturing employment index moved up eight points to end at 4, and the average workweek indicator added one point to 4. Wage growth remained modest, matching its three-month average of 10.

Expectations

In our January survey, our contacts were more bullish about their business prospects for the next six months. The index of expected shipments increased nine points to 36, expected orders gained eleven points to finish at 32, and backlogs added eight points to 14. The capacity utilization and vendor delivery times indexes each rose nine points to finish at 11 and 20, respectively. Moreover, readings for planned capital expenditures moved up eight points to finish at 15.

District manufacturers' hiring plans in January were somewhat more optimistic as well. The expected manufacturing employment index edged up three points to 20, while the average workweek indicator held steady at 7. The index of expected wages was virtually unchanged at 19.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 2.53 percent January, up somewhat from

December's reading of 1.55 percent. Finished goods prices rose at a 0.57 percent pace, considerably below December's reading of 1.34 percent.

Looking forward, respondents expected that the prices they pay will advance at a 3.15 percent pace, slightly above December's reading of 2.70 percent. Contacts looked for finished goods prices to increase at a 1.62 percent annual rate, somewhat below last month's 2.23 percent pace.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Jan-12	Dec-11	Nov-11	Jan-12	Dec-11	Nov-11
Fifth District Manufacturing Index ³	12	3	0	--	--	--
Company Conditions						
Shipments	17	3	1	36	27	36
Volume of New Orders	14	7	-2	32	21	37
Backlog of Orders	-4	1	-10	14	6	17
Capacity Utilization	8	0	-6	28	19	30
Vendor Lead-time	3	4	5	11	2	6
Number of Employees	4	-4	0	20	17	22
Average Workweek	4	3	0	7	7	3
Wages	10	10	10	19	18	28
Capital Expenditures	--	--	--	15	7	15
Inventory Levels						
Finished Goods Inventories	9	23	18	--	--	--
Raw Materials Inventories	18	13	15	--	--	--
Price Trends⁴						
Prices Paid	2.53	1.55 ⁵	3.42	3.15	2.70	2.79
Prices Received	0.57	1.34 ⁵	2.64	1.62	2.23	1.46

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 127 of 376 firms surveyed.
- 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 a percent change, annualized.
- Numbers were revised on 1/17/2012.