

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Activity Expanded for the Third Straight Month; Expectations Remain Upbeat*

### Overview

Manufacturing activity in the central Atlantic region advanced for the third straight month, according to the Richmond Fed's latest survey. Our broadest indicators of overall activity—shipments, new orders and employment—remained in positive territory, and the rate of increase strengthened considerably from our last report. Other indicators were also positive, including backlogs and capacity utilization. Likewise, delivery times and finished goods inventories grew at a moderately quicker rate.

Looking ahead, assessments of business prospects for the next six months were generally on par with last month's readings. Contacts at more firms anticipated that shipments, new orders, backlogs, capacity utilization, and capital expenditures would continue to grow at a solid pace in the months ahead.

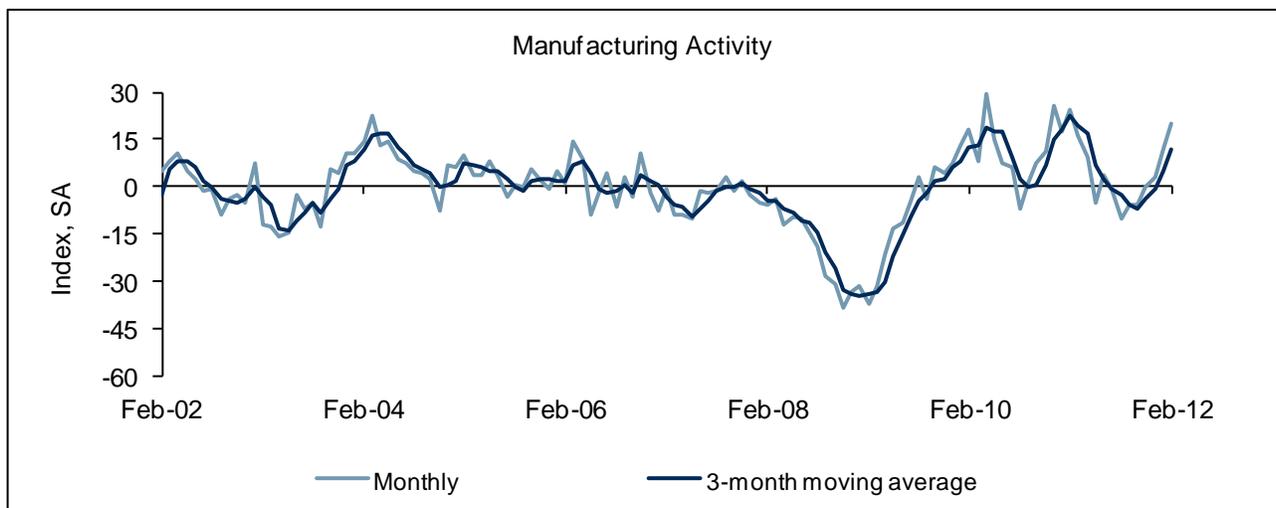
Survey assessments of current prices revealed that raw materials prices grew at a somewhat slower rate in February than a month ago, while finished goods prices grew at a slightly quicker

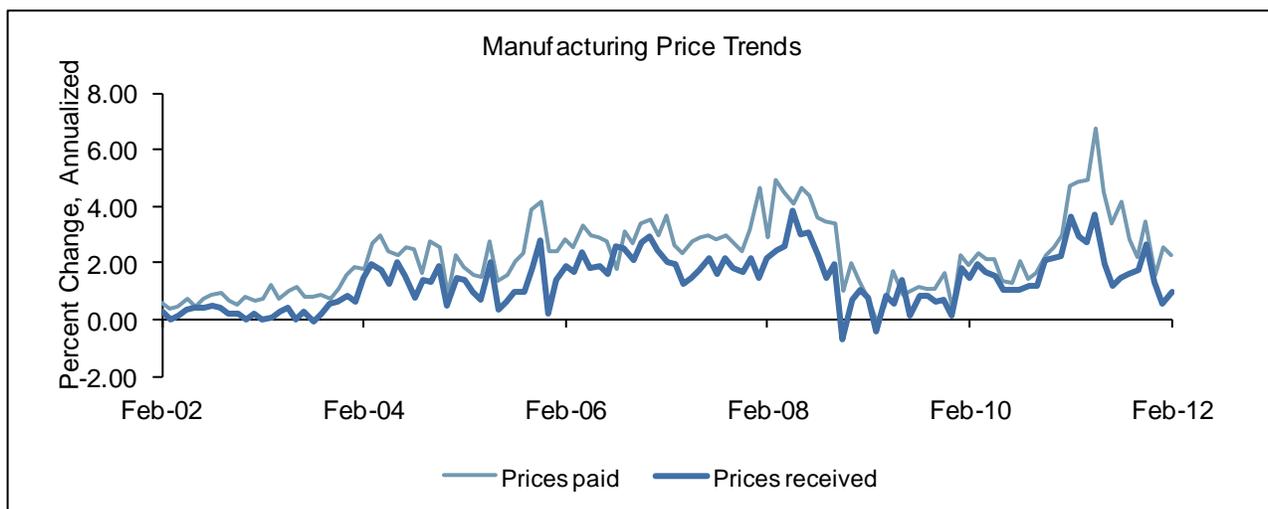
pace. Over the next six months, respondents expected growth in both raw materials and finished goods prices to rise at a somewhat slower pace than they had anticipated last month.

### Current Activity

In February, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—increased eight points to 20 from January's reading of 12. Among the index's components, shipments gained eight points to 25, new orders picked up seven points to finish at 21, and the jobs index moved up nine points to end at 13.

Other indicators also suggested stronger activity. The backlogs index moved into positive territory, picking up eight points to 4 and the capacity utilization indicator advanced four points to finish at 12. Additionally, the delivery times index rose eleven points to 14, while our gauges for inventories were mixed in February. The finished goods inventories index added three points to 12, while the raw materials inventory index lost seven points to end at 11.





**Employment**

Labor market conditions at District plants strengthened further in February. The manufacturing employment index moved up nine points to end at 13, and the average workweek indicator increased six points to 10. In contrast, wage growth eased, losing three points to 7.

**Expectations**

In our February survey, our contacts remained confident about their business prospects for the next six months. The index of expected shipments inched down six points to 30, expected orders eased one point to finish at 31, and backlogs slipped two points to 12. Capacity utilization held steady at 28 and the vendor delivery times index was virtually unchanged at 10. Readings for planned capital expenditures moved up four points to finish at 19.

District manufacturers' intentions to expand hiring were more bullish in February. The expected manufacturing employment index jumped twelve points to 32 and the average workweek indicator added three points to 10. In addition, the index of expected wages rose seven points to 26.

**Prices**

District manufacturers reported that raw materials prices increased at an average annual rate of 2.25 percent in February, compared to January's

reading of 2.53 percent. Finished goods prices rose at a 0.97 percent pace, compared to January's reading of 0.57 percent.

Looking ahead, respondents expected that the prices they pay will advance at a 1.58 percent pace, down considerably from January's reading of 3.15 percent. Contacts looked for finished goods prices to increase at a 1.55 percent annual rate, in line with last month's 1.62 percent pace.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Feb-12	Jan-12	Dec-11	Feb-12	Jan-12	Dec-11
Fifth District Manufacturing Index <sup>3</sup>	20	12	3	--	--	--
<b>Company Conditions</b>						
Shipments	25	17	3	30	36	27
Volume of New Orders	21	14	7	31	32	21
Backlog of Orders	4	-4	1	12	14	6
Capacity Utilization	12	8	0	28	28	19
Vendor Lead-time	14	3	4	10	11	2
Number of Employees	13	4	-4	32	20	17
Average Workweek	10	4	3	10	7	7
Wages	7	10	10	26	19	18
Capital Expenditures	--	--	--	19	15	7
<b>Inventory Levels</b>						
Finished Goods Inventories	12	9	23	--	--	--
Raw Materials Inventories	11	18	13	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	2.25	2.53	1.55 <sup>5</sup>	1.58	3.15	2.70
Prices Received	0.97	0.57	1.34 <sup>5</sup>	1.55	1.62	2.23

**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 121 of 353 firms surveyed.
- <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 a percent change, annualized.
- <sup>5</sup> Numbers were revised on 1/17/2012.