

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Growth Moderates In March; Expectations Remain Positive

Overview

Manufacturing activity in the central Atlantic region expanded in March for the fourth straight month, but at a more temperate pace than a month ago, according to the Richmond Fed's latest survey. All broad indicators—including shipments, new orders, and employment—continued to grow but at a rate below February's pace. Most other indicators also suggested moderate activity. District contacts reported capacity utilization grew more slowly, while backlogs held steady. Likewise, delivery times and finished goods inventories grew at a modestly slower rate.

Looking forward, assessments of business prospects for the next six months were generally in line 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.

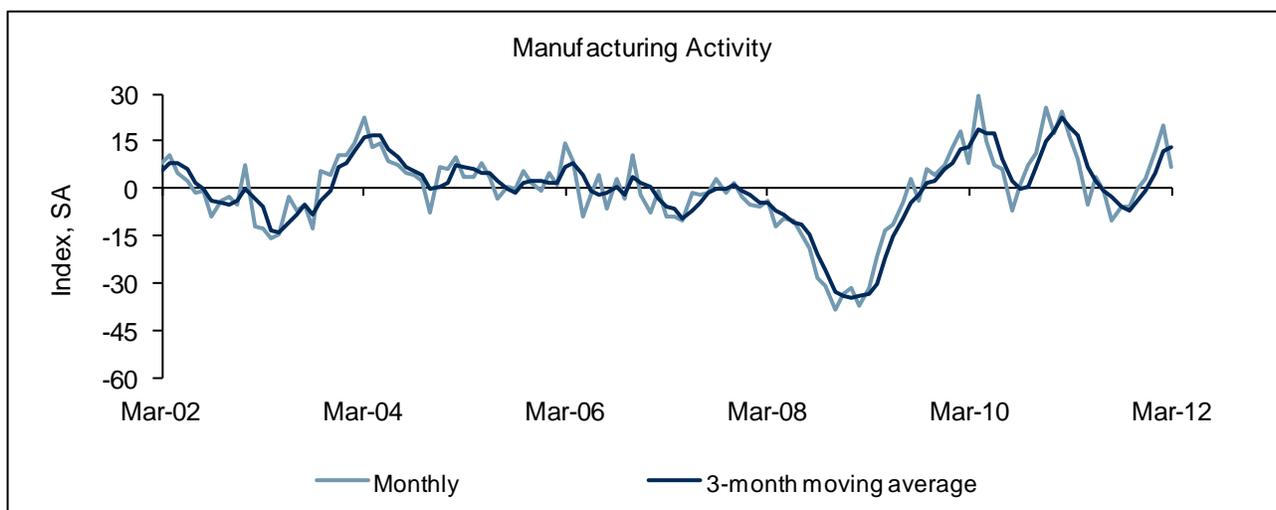
Survey assessments of current prices revealed that both raw materials and finished goods prices grew at a somewhat quicker rate in March than a

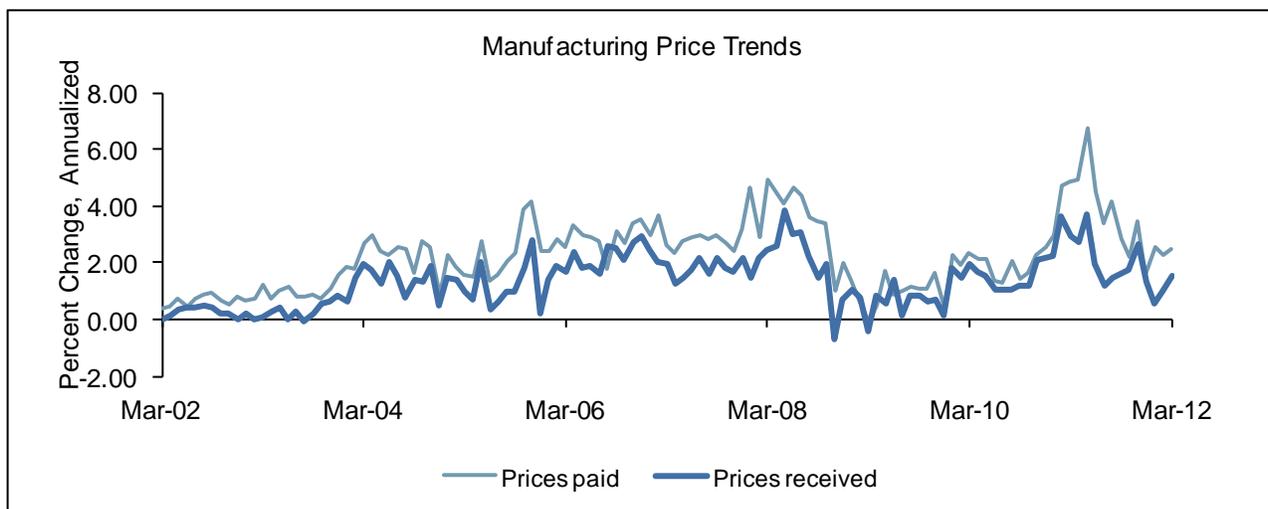
month ago. Over the next six months, respondents expected growth in both raw materials and finished goods prices to rise at a somewhat faster pace than they had anticipated last month.

Current Activity

In March, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—declined thirteen points to 7 from February's reading of 20. Among the index's components, shipments lost twenty-three points to 2, new orders dropped ten points to finish at 11, and the jobs index moved down seven points to end at 6.

Other indicators also suggested somewhat slower activity. The capacity utilization indicator retreated six points to finish at 6, while the backlogs index held steady at 4. Additionally, the delivery times index lost three points to 11, while our gauges for inventories were mixed in March. The finished goods inventories index subtracted eight points to 4, while the raw materials inventory index added three points to end at 11.





Employment

Hiring activity was mixed at District plants in March. The manufacturing employment index moved down seven points to end at 6, and the average workweek indicator fell eight points to 2. In contrast, wage growth gained four points to 11.

Expectations

In our March survey, our contacts remained generally confident about their business prospects for the next six months. The index of expected shipments inched down four points to 26, while expected orders picked up one point to finish at 32. Backlogs eased one point to 11 and capacity utilization decreased four points to 24. Vendor lead-time was unchanged at 10. Readings for planned capital expenditures moved up three points to finish at 22.

District manufacturers' intentions to expand hiring were slightly less optimistic in March. The expected manufacturing employment index declined twenty-two points to 10, while the average workweek indicator was virtually unchanged at 9. In addition, the index of expected wages fell two points to 24.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 2.50 percent in March, compared to February's

reading of 2.25 percent. Finished goods prices rose at a 1.50 percent pace, somewhat higher compared to February's reading of 0.97 percent.

Looking forward, respondents expected that the prices they pay will advance at a 2.80 percent pace, up considerably from February's reading of 1.58 percent. Contacts looked for finished goods prices to increase at a 1.60 percent annual rate, in line with last month's 1.55 percent pace.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Mar-12	Feb-12	Jan-12	Mar-12	Feb-12	Jan-12
Fifth District Manufacturing Index ³	7	20	12	--	--	--
Company Conditions						
Shipments	2	25	17	26	30	36
Volume of New Orders	11	21	14	32	31	32
Backlog of Orders	4	4	-4	11	12	14
Capacity Utilization	6	12	8	24	28	28
Vendor Lead-time	11	14	3	10	10	11
Number of Employees	6	13	4	10	32	20
Average Workweek	2	10	4	9	10	7
Wages	11	7	10	24	26	19
Capital Expenditures	--	--	--	22	19	15
Inventory Levels						
Finished Goods Inventories	4	12	9	--	--	--
Raw Materials Inventories	14	11	18	--	--	--
Price Trends⁴						
Prices Paid	2.50	2.25	2.53	2.80	1.58	3.15
Prices Received	1.50	0.97	0.57	1.60	1.55	1.62

Technical Notes:

- ¹ 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 132 of 346 firms surveyed.
- ² Expectations refer to the time period six months out from the survey period.
- ³ 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.
- ⁴ Price changes are expressed a percent change, annualized.