

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Activity Expanded for the Second Straight Month; Optimism Wanes

Overview

Manufacturing activity in the central Atlantic region advanced for the second straight month, according to the Richmond Fed's latest survey. Looking at the broad indicators of activity, new orders were virtually unchanged, shipments grew more slowly, and employment declined. Other indicators were mixed. Capacity utilization turned positive, while backlogs fell further. Moreover, the gauge for delivery times inched higher, while finished goods inventories grew at a slightly slower pace and growth in raw materials inventories edged higher.

Looking forward, assessments of business prospects for the next six months were less optimistic in December. An increasing number of contacts anticipated slower growth for most indicators with the exception of capital expenditures, which grew at a rate slightly above November's rate.

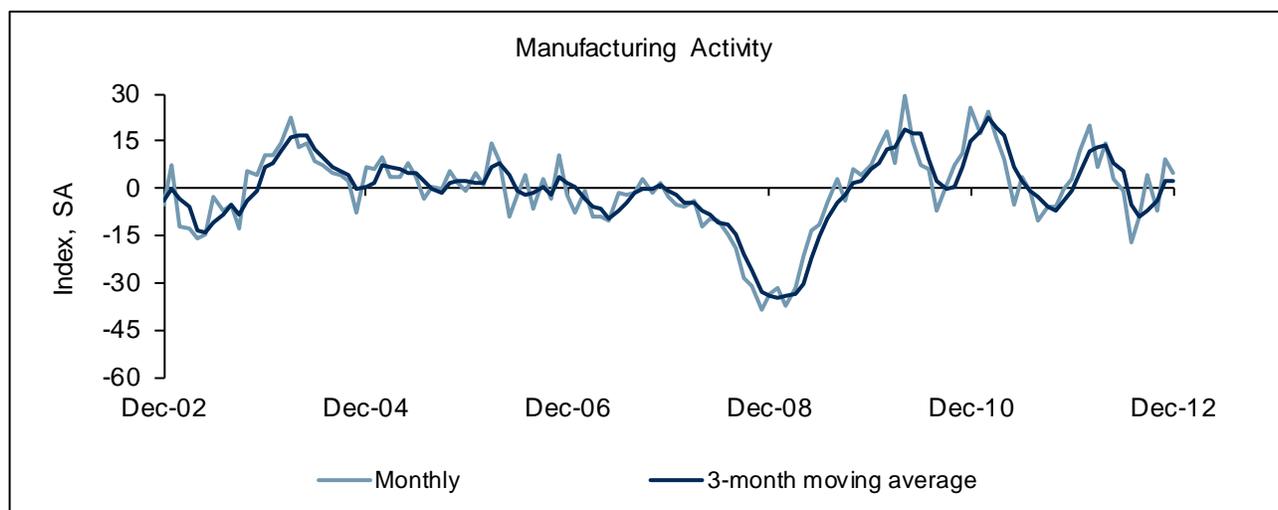
Survey assessments of current prices indicated that raw materials prices grew on par with November, while finished goods prices grew at a slightly slower rate. Over the next six months,

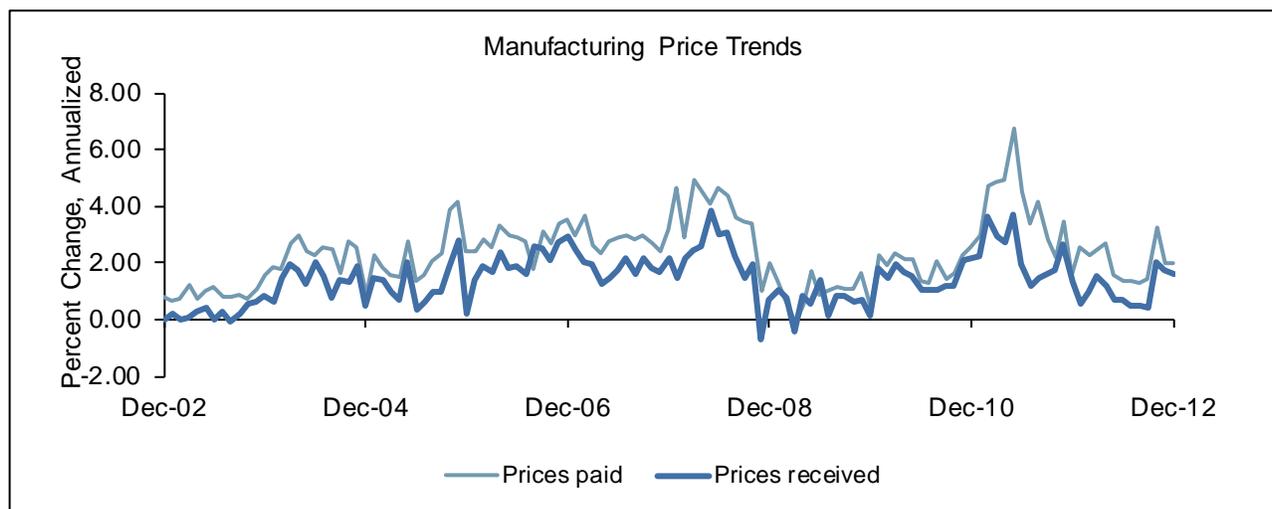
respondents expected raw materials prices to grow at a slightly quicker pace compared to their outlook of last month, while they expected finished goods prices to grow at a slower rate than they had anticipated a month earlier.

Current Activity

In December, the seasonally adjusted composite index of manufacturing activity—our broadest measure of manufacturing—lost four points, settling at 5 from November's reading of 9. Among the index's components, shipments fell five points to 6, the gauge for new orders was almost unchanged at 10, and the jobs index turned negative, losing six points to -3.

Other indicators varied. The index for capacity utilization moved higher, adding six points to 3, while the backlogs of orders slipped two points to end at -11. The delivery times index picked up three points to 3, while our gauges for inventories were mixed in December. The raw materials inventory index gained three points to finish at 24, while the finished goods lost seven points to 12.





Employment

Labor market conditions edged lower at District plants in December. The manufacturing employment index turned negative, losing six points to settle at -3, and the average workweek indicator lost four points to end at -2. However, the wage index held steady at 10.

Expectations

In the current survey, contacts were generally less optimistic about their future business prospects than they reported a month ago. The index of expected shipments lost eight points, ending at a reading of 20, and the new orders index dropped thirteen points to finish at 12. Backlogs moved down nineteen points to 0 and capacity utilization fell eight points to 4. Vendor lead-time declined thirteen points to -3, while readings for planned capital expenditures added five points to end at 9.

District manufacturers' hiring plans were mixed in December. The index for expected manufacturing employment gained two points to finish at 2, while the average workweek indicator fell eleven points to -5. Furthermore, the index of expected wages shed seven points to end at 21.

Prices

District manufacturers reported that raw materials prices increased at an average annual rate of 2.01 percent, in line with November's reading of

1.99 percent. Finished goods prices rose at a 1.57 percent pace, slightly below November's reading of 1.72 percent.

Looking forward, respondents on average expected that the prices they pay will advance at a 2.54 percent pace, somewhat above November's outlook of 1.95 percent. Contacts looked for finished goods prices to increase at a 0.87 percent annual rate, slightly below last month's expectation for a 1.29 percent pace.

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Business Activity Indexes¹

| General Business Assessment | Current Conditions | | | Expectations ² | | |
|---|--------------------|--------|--------|---------------------------|--------|--------|
| | Dec-12 | Nov-12 | Oct-12 | Dec-12 | Nov-12 | Oct-12 |
| Fifth District Manufacturing Index ³ | 5 | 9 | -7 | -- | -- | -- |
| Company Conditions | | | | | | |
| Shipments | 6 | 11 | -9 | 20 | 28 | 21 |
| Volume of New Orders | 10 | 11 | -6 | 12 | 25 | 19 |
| Backlog of Orders | -11 | -9 | -3 | 0 | 19 | 6 |
| Capacity Utilization | 3 | -3 | -4 | 4 | 12 | 19 |
| Vendor Lead-time | 3 | 0 | -2 | -3 | 10 | 7 |
| Number of Employees | -3 | 3 | -5 | 2 | 0 | 8 |
| Average Workweek | -2 | 2 | 3 | -5 | 6 | 10 |
| Wages | 10 | 10 | 10 | 21 | 28 | 25 |
| Capital Expenditures | -- | -- | -- | 9 | 4 | 0 |
| Inventory Levels | | | | | | |
| Finished Goods Inventories | 12 | 19 | 15 | -- | -- | -- |
| Raw Materials Inventories | 24 | 21 | 23 | -- | -- | -- |
| Price Trends⁴ | | | | | | |
| Prices Paid | 2.01 | 1.99 | 3.21 | 2.54 | 1.95 | 2.55 |
| Prices Received | 1.57 | 1.72 | 1.99 | 0.87 | 1.29 | 1.51 |

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 108 of 290 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.