

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Remained Soft; Employment Edged Up

Overview

Manufacturing in the Fifth District remained weak in October, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments, capacity utilization, and the backlog of orders declined. The volume of new orders flattened, while vendor lead-time rose. Finished goods inventories and raw materials inventories also increased in October. Although the average workweek was little changed, manufacturing employment picked up slightly and average wages continued to grow.

Manufacturers' outlook for the six months ahead was optimistic, though somewhat less buoyant than in recent months. Firms anticipated shipments and the volume of new orders would increase substantially, along with increased capacity utilization. They expected a build-up in their backlog of orders, and a smaller rise in vendor lead-time than they were currently experiencing. Survey participants also continued to anticipate greater capital expenditures.

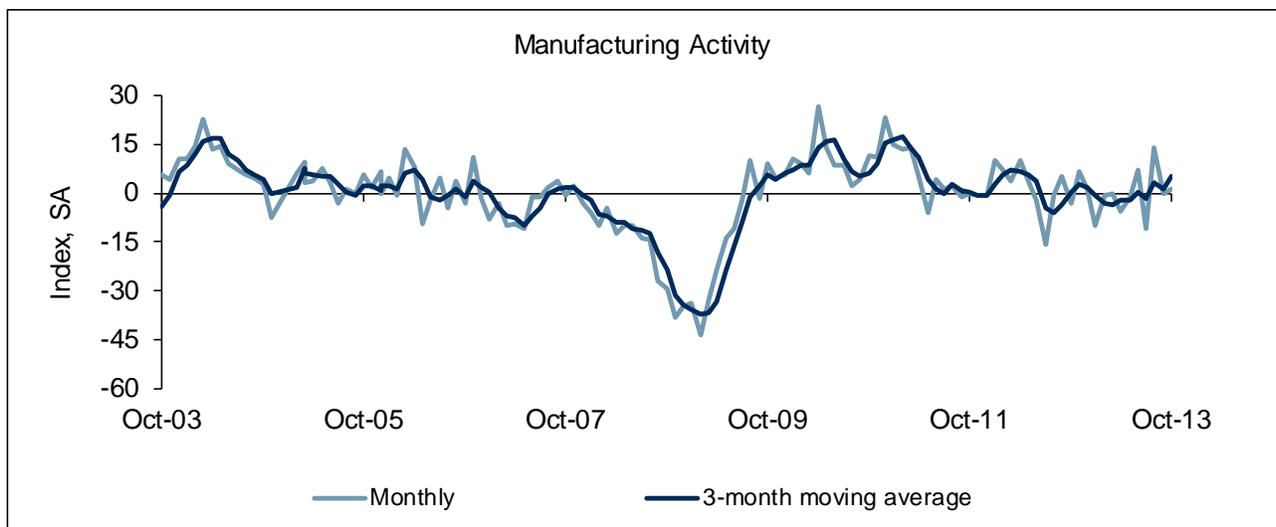
Additionally, producers expected that the number of employees would increase, along with a mild rise in the average workweek. Expectations were for stronger wage growth during the next six months.

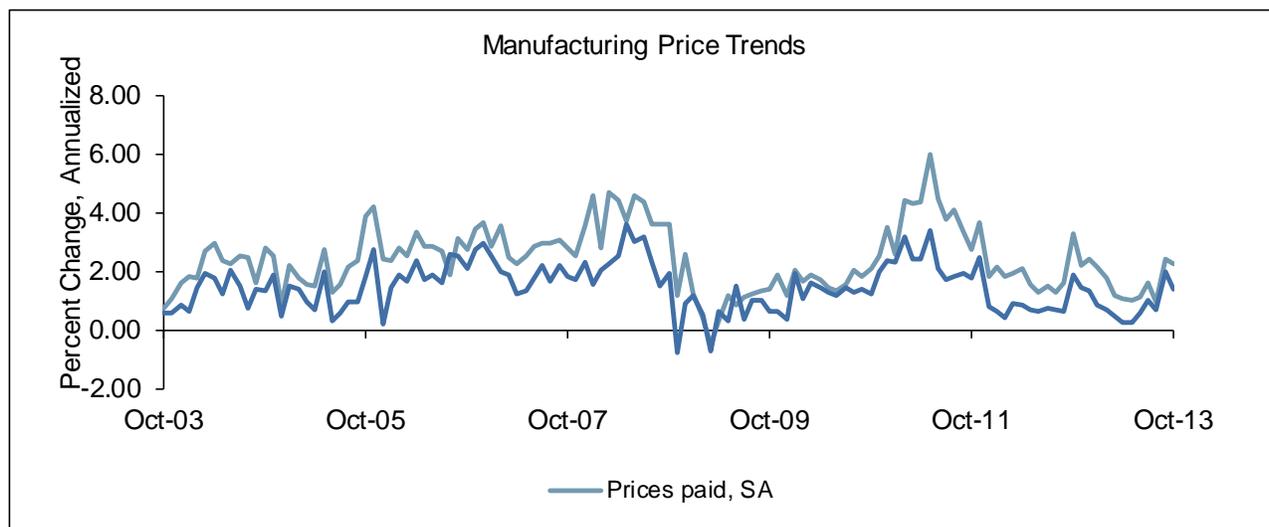
Manufacturing price growth moderated in October, with the annualized increases in raw materials and finished goods below last month's. Further, manufacturers expected prices paid and received would rise more slowly over the next six months.

Current Activity

The composite index of manufacturing activity settled at 1 in October, remaining close to last month's neutral reading. The index for shipments slipped a point lower to -2, and the index for new orders dropped five points, flattening to 0. The third component of the composite, employment, gained 10 points to end the survey period at 4.

Vendor lead-time rose, pushing the index to 11 from a reading of 1. The index for the backlog of orders dropped to -15 from -7, and the indicator for





capacity utilization fell six points to -5. Both finished goods inventories and raw materials inventories grew more quickly than a month earlier, with those gauges rising to 14 and 16, from 11 and 14.

Employment

Employment in the manufacturing sector rose modestly in October, moving the index for the number of employees to 4 from -6. The average workweek was little changed, with that index gaining three points to end at -1. In contrast, average wage growth remained solid; the index shed four points, settling at 9.

Expectations

Manufacturers maintained their upbeat outlook for the six months ahead, although their optimism moderated from a month ago. The index for expected shipments finished at a reading of 30, nine points below last month, and the index for the volume of new orders settled 12 points lower at 23. More backlogs were expected, with that index ending the survey period at 11, seven points less than September's reading of 18. Manufacturers' projections for increases in vendor lead-times kept the index at 6 for a second month. Producers anticipated that capacity utilization would increase. The index finished at 18, compared to 29 a month ago. Manufacturers planned to increase capital spending, although that index diminished to 24 from the previous reading of 31.

Manufacturers still expected to increase hiring in the six months ahead; the indicator slipped four points this month to 13. Expectations were for an

increase in the average workweek, although that index also slipped, losing three points to finish at 5. The outlook for wage growth remained strongly positive, with the index ending at 21, compared to the September reading of 26.

Prices

Prices of raw materials rose more slowly in October, at an annualized 2.27 percent rate following a 2.44 percent pace in September. Prices of finished goods also moderated, to a 1.38 percent annualized rate, compared to last month's 1.98 percent pace.

For the six months ahead, survey respondents expected input prices would slow further, to an annualized 2.08 percent rate, compared to their previous expectations of 2.26 percent. Finished goods prices were expected to rise at a 0.90 percent annualized rate, following expectations for a 1.73 percent rate.

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Business Activity Indexes¹

General Business Assessment	Current Conditions			Expectations ²		
	Oct-13	Sep-13	Aug-13	Oct-13	Sep-13	Aug-13
Fifth District Manufacturing Index ³	1	0	14	--	--	--
Company Conditions						
Shipments	-2	-1	17	30	39	36
Volume of New Orders	0	5	16	23	35	33
Backlog of Orders	-15	-7	-6	11	18	15
Capacity Utilization	-5	1	3	18	29	24
Vendor Lead-time	11	1	1	6	6	10
Number of Employees	4	-6	6	13	17	9
Average Workweek	-1	-4	8	5	8	10
Wages	9	13	13	21	26	28
Capital Expenditures	--	--	--	24	31	15
Inventory Levels						
Finished Goods Inventories	14	11	13	--	--	--
Raw Materials Inventories	16	14	13	--	--	--
Price Trends⁴						
Prices Paid	2.27	2.44	0.99	2.08	2.26	2.15
Prices Received	1.38	1.98	0.69	0.90	1.73	1.23

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 100 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 a percent change, annualized.