

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

*Manufacturing Sector Softened; Shipments and New Orders Declined*

### Overview

Manufacturing in the Fifth District slowed, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders declined. Hiring flattened, while the average workweek shortened and average wage growth rose. The backlog of orders declined and vendor lead time remained flat in February, as capacity utilization lost traction.

Manufacturers were less optimistic about their future business conditions than they were a month ago. Firms anticipated slower growth in shipments and new orders. Additionally, producers looked for flat backlogs and slower growth in capacity utilization. Survey participants expected the number of employees and wages to grow on pace with last month's outlook, with slower growth in the average workweek. Expectations were for vendor lead time to remain unchanged.

Raw materials and finished goods prices rose at a slower pace in February compared to last month. Manufacturers expected faster growth in prices

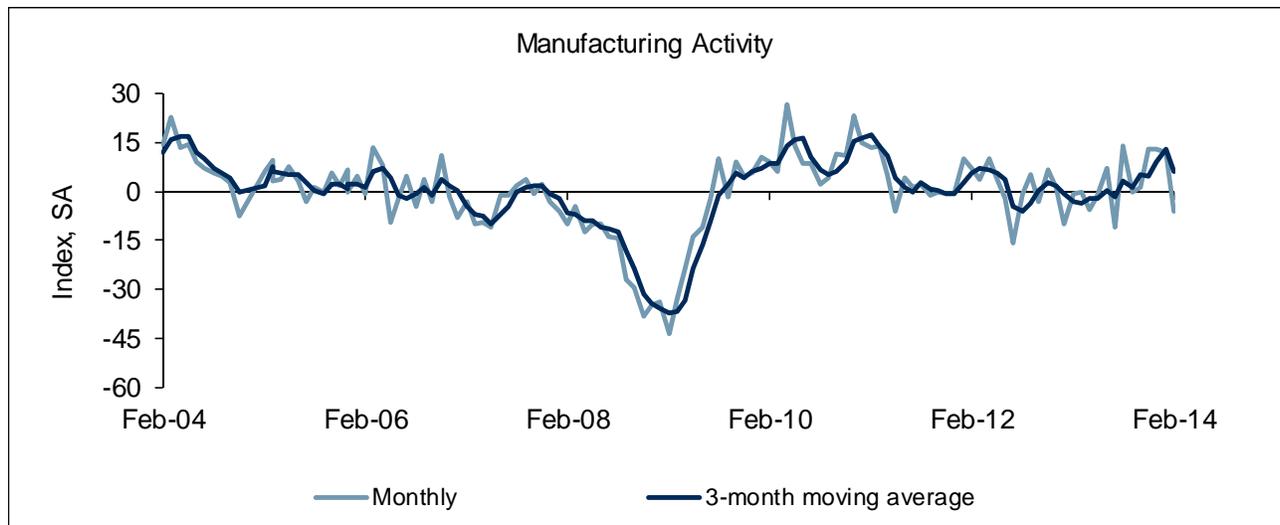
paid and prices received over the next six months compared to last month's predictions.

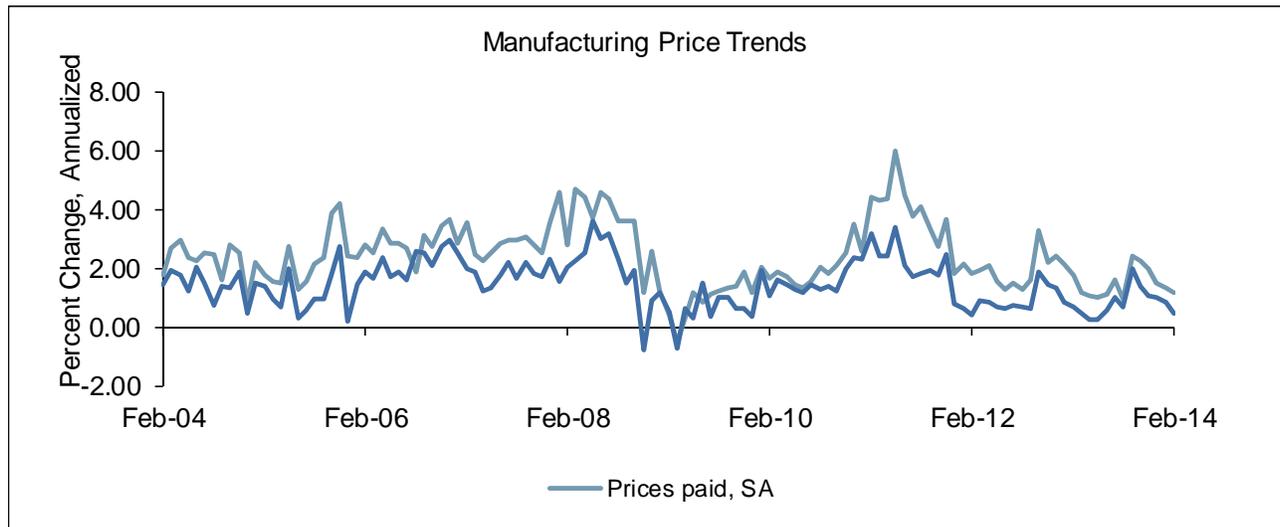
### Current Activity

The composite index of manufacturing dipped to a reading of -6 following last month's reading of 12. The index for shipments fell 20 points, ending at -6, and the index for new orders dropped 23 points, finishing at a reading of -9. The index for the number of employees shed six points, settling at 0. As a result of bad weather a few survey participants reported that manufacturing facilities experienced downtime in February, with some reductions in shipments.

Vendor lead time remained unchanged at a reading of 0, while the backlog of orders index slipped six points to settle at -8. The capacity utilization index also declined, falling in February to -7 from 11.

Finished goods inventories built up at nearly the same rate as a month ago; the index climbed one point to 13. Raw materials inventories grew faster; that gauge moved to 17 from 4.





**Employment**

Manufacturing employment eased off this month, settling at an index of 0 and the average workweek shortened. The index shed 13 points moving to a reading of -5. The index for average wages grew only slightly faster; that gauge edged up to 14 from the previous reading of 11.

**Expectations**

Producers anticipated weaker business conditions in the next six months. The index for expected shipments finished at a reading of 17, 16 points below last month’s outlook. Survey participants expected slower growth in new orders; the February indicator fell 15 points to a reading of 15.

Manufacturers expected backlogs to level off in the next six months. The February indicator shed 14 points, ending at 0. The index for capital spending softened to a reading of 9, 18 points lower than last month’s outlook. Expectations were for capacity utilization to slow, bringing the outlook index to 12 from 27.

Survey participants looked for little change in hiring and average wages during the next six months. Those gauges held steady at readings of 12 and 26 respectively. Manufacturers anticipated that the average workweek would increase more slowly in the next six months; the index slipped to 3 from 11.

**Prices**

Raw materials prices rose more slowly this month, advancing at an annualized 1.19 percent rate, compared to 1.32 percent previously. A survey participant stated that aggressive cost reductions are being sought with suppliers. Prices of finished goods rose at a 0.47 percent annualized rate, below January’s 0.87 percent pace.

For the six months ahead, survey respondents expected input prices would rise more quickly, at an annualized 2.25 percent rate, following January’s expectation for 1.64 percent growth. Finished goods prices were expected to rise to a 1.39 percent annualized rate, compared to the previous expectation for 0.82 percent growth.

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

General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Feb-14	Jan-14	Dec-13	Feb-14	Jan-14	Dec-13
Fifth District Manufacturing Index <sup>3</sup>	-6	12	13	--	--	--
<b>Company Conditions</b>						
Shipments	-6	14	15	17	33	34
Volume of New Orders	-9	14	10	15	30	34
Backlog of Orders	-8	-2	-8	0	14	18
Capacity Utilization	-7	11	8	12	27	26
Vendor Lead-time	0	0	-4	2	2	7
Number of Employees	0	6	14	12	12	17
Average Workweek	-5	8	6	3	11	4
Wages	14	11	10	26	26	32
Capital Expenditures	--	--	--	9	27	9
<b>Inventory Levels</b>						
Finished Goods Inventories	13	12	10	--	--	--
Raw Materials Inventories	17	4	12	--	--	--
<b>Price Trends<sup>4</sup></b>						
Prices Paid	1.19	1.32	1.53	2.25	1.64	2.05
Prices Received	0.47	0.87	1.04	1.39	0.82	1.07

**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 94 firms.
- <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.