

# Regional Surveys of Business Activity

## Fifth District Survey of Manufacturing Activity

### *Manufacturing Sector Activity Expanded; Shipments Grew Mildly, Hiring Picked Up*

#### Overview

Fifth District manufacturing activity grew moderately in July, according to the most recent survey by the Federal Reserve Bank of Richmond.\* The volume of new orders was flat compared to June, and shipments grew on pace with a month ago. Manufacturing employment picked up, while growth in the average workweek slowed slightly and wages rose more quickly in comparison to last month.

Manufacturers were optimistic about future business conditions. Firms expected faster growth in shipments and new orders in the six months ahead. Additionally, producers looked for backlogs to build more quickly and anticipated faster growth in capacity utilization. Expectations were for shorter vendor lead times.

Survey participants expected faster growth in the number of employees along with solid growth in wages and a pickup in the average workweek. Prices of raw materials and finished goods rose at a somewhat faster pace in July compared to last month. Additionally, manufacturers expected slightly faster growth in prices paid and prices

received over the next six months than they anticipated a month ago.

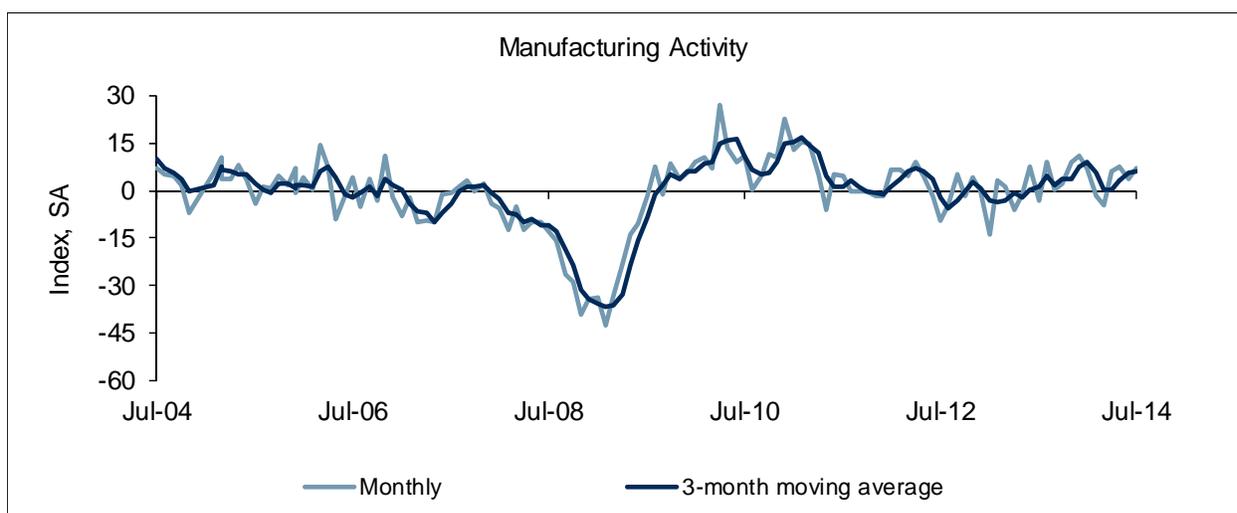
#### Current Activity

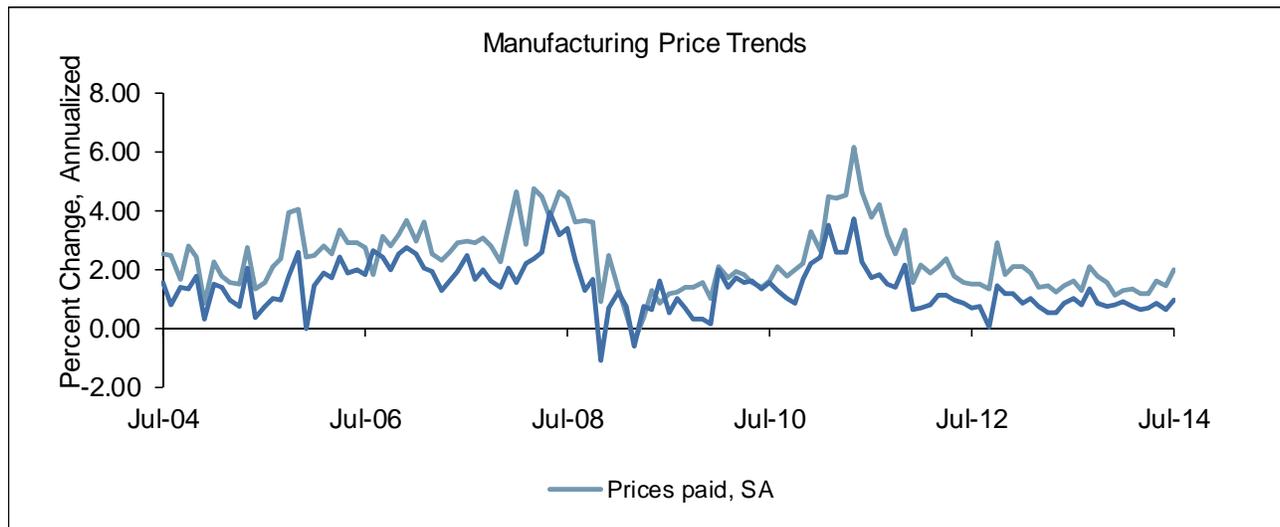
Overall, manufacturing conditions strengthened. The composite index for manufacturing moved up to a reading of 7 following last month's reading of 4. The index for shipments gained one point, ending at 3. New orders grew at the same pace as a month ago, with that index finishing at a reading of 5. Manufacturing employment picked up this month; the July indicator advanced nine points to a reading of 13.

Vendor lead time lengthened, moving the index to 12 from a reading of 2, and the backlog of orders index flattened to 0 from -4. The capacity utilization gauge slipped three points this month to end at 4. Finished goods inventories built up at a faster pace. The index gained four points, ending at 12. Raw materials inventories grew more quickly compared to last month. That gauge moved to 21 from 14.

#### Employment

Manufacturing employment strengthened this month, with the index gaining nine points to finish





at 13. The average workweek grew at a slower pace this month; moving that gauge down two points to end at 3. Average wages advanced compared to a month ago, ending at 16.

**Expectations**

Producers anticipated positive business conditions for the six months ahead. The index for expected shipments finished 12 points above last month’s outlook, at a reading of 36. Survey participants expected faster growth in new orders; the July indicator gained seven points, ending at 34.

Manufacturers expected backlogs to grow more quickly in the next six months. The outlook index maintained a reading of 15. The index for capital spending edged up one point from last month’s expectation, bringing the index to 19. Expectations were for capacity utilization to increase, bringing the outlook index to 29 from 18. Producers anticipated vendor lead time would increase more slowly; the outlook index shed three points finishing at 6.

Firms looked for a pick-up in hiring in the months ahead, with the index gaining seven points to finish at 19. The index for expected average wages settled at 23 versus the previous reading of 28. Manufacturers anticipated the average workweek would increase at the same rate as last month; the index held steady at 10.

**Prices**

Prices of raw materials rose more quickly this month, advancing at an annualized 1.99 percent

rate, compared to a 1.47 percent previously. Prices of finished goods rose at a 0.99 percent annualized rate, above June’s 0.66 percent pace.

For the six months ahead, survey respondents expected input prices would rise more quickly, at an annualized 1.89 percent rate, following June’s expectation for 1.84 percent growth. Finished goods prices were expected to rise at an annualized 1.04 percent rate, compared to the previous expectation for 0.99 percent growth.

*\*Seasonal adjustment factors were recalculated this month and applied to historical data to better reflect current economic trends. In this report, comparisons to last month’s indexes are made to the revised June indexes. New factors will be calculated annually.*

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Business Activity Indexes <sup>1,5</sup>						
General Business Assessment	Current Conditions			Expectations <sup>2</sup>		
	Jul-14	Jun-14	May-14	Jul-14	Jun-14	May-14
Fifth District Manufacturing Index <sup>3</sup>	7	4	8	--	--	--
Company Conditions						
Shipments	3	2	7	36	24	22
Volume of New Orders	5	5	7	34	27	24
Backlog of Orders	0	-4	-1	15	15	7
Capacity Utilization	4	7	1	29	18	22
Vendor Lead-time	12	2	4	6	9	8
Number of Employees	13	4	9	19	12	15
Average Workweek	3	5	5	10	10	7
Wages	16	12	22	23	28	28
Capital Expenditures	--	--	--	19	18	20
Inventory Levels						
Finished Goods Inventories	12	8	15	--	--	--
Raw Materials Inventories	21	14	10	--	--	--
Price Trends <sup>4</sup>						
Prices Paid	1.99	1.47	1.62	1.89	1.84	1.83
Prices Received	0.99	0.66	0.86	1.04	0.99	0.99

**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 89 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 as percent change, annualized.
- This table includes recalculation of seasonal adjustment factors to better reflect current economic trends. New factors will be calculated annually.