

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Strengthened; Further Improvement in Shipments and New Orders

Overview

Fifth District manufacturing activity expanded in October, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders grew robustly this month, while manufacturing employment growth continued at a moderate pace. Average wages rose modestly and the average workweek shortened slightly compared to a month ago.

Manufacturers remained optimistic about future business conditions. Firms continued to look for faster growth in shipments and in the volume of new orders. Additionally, producers expected increased capacity utilization and anticipated rising backlogs in the six months ahead. Manufacturers looked for little change in vendor lead times.

Survey participants' outlook for the months ahead included faster growth in the number of employees and average wages, with steady growth in the average workweek.

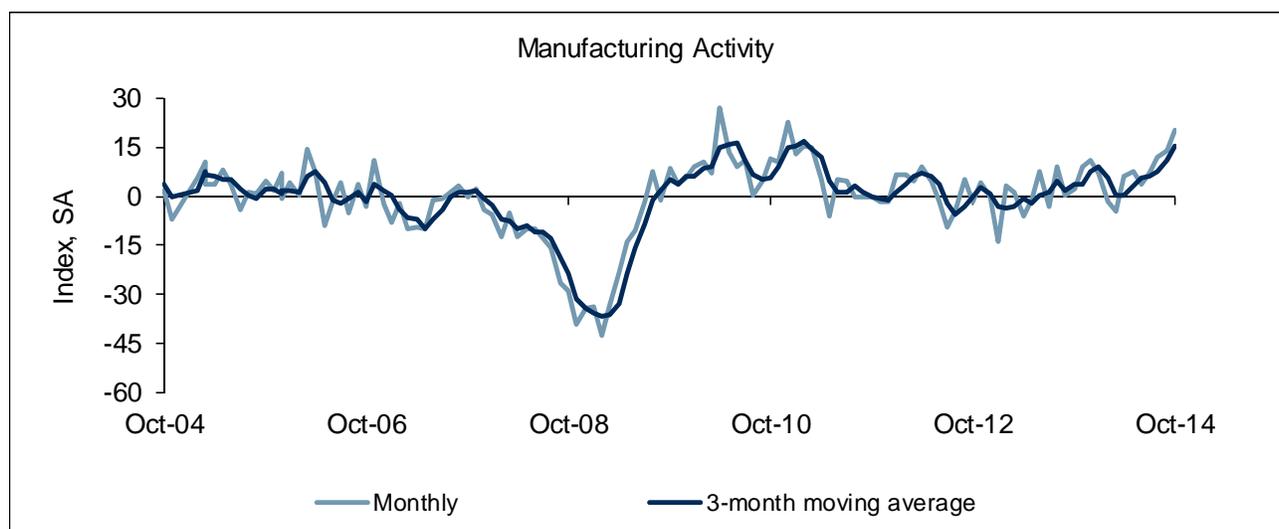
Prices of raw materials and finished goods rose at a slightly faster pace in October. Manufacturers

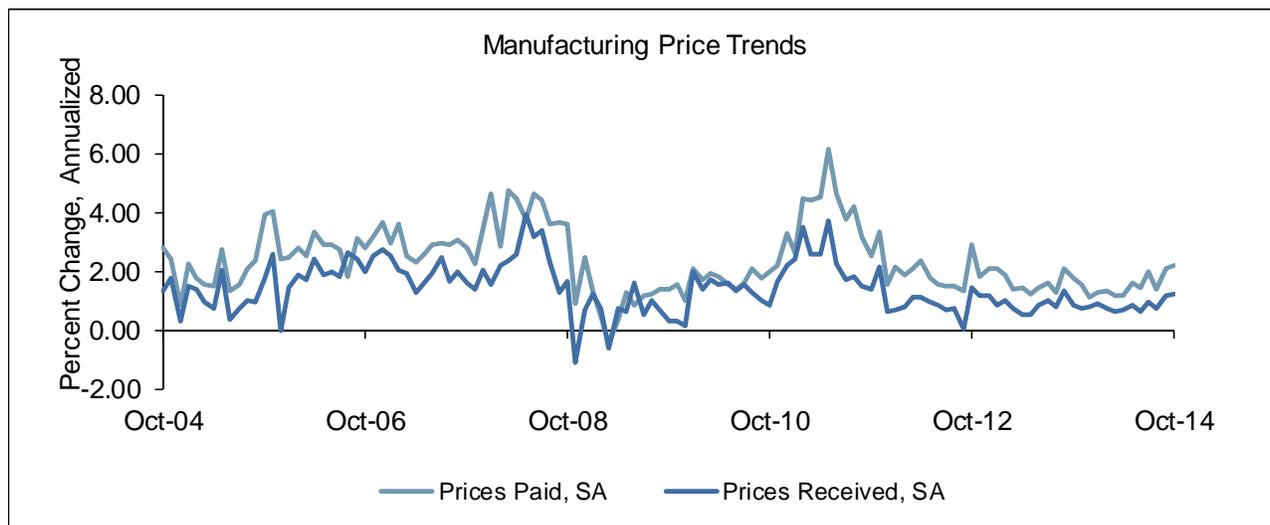
expected slower growth in prices paid and anticipated faster growth in prices received over the next six months.

Current Activity

Overall, manufacturing conditions strengthened in October. The composite index climbed to a reading of 20 following last month's reading of 14. The index for shipments advanced 12 points, ending at 23. Additionally, the index for new orders moved up eight points to 22. Manufacturing employment grew at a steady pace this month. The October indicator slipped three points to a reading of 14.

Vendor lead time lengthened, moving the index up two points to 12. Capacity utilization grew on pace with a month ago; the index remained at 13. Backlogs rose at a faster pace this month; the October indicator gained three points, ending at 9. Finished goods inventories rose at a slower pace compared to a month ago. The index shed eight points to finish at 15. Additionally, raw materials inventories rose at a slightly slower rate compared to last month. That gauge moved down one point to settle at 19.





Employment

Manufacturing employment grew moderately this month. The October index shed three points to end at 14. The average workweek shortened slightly, moving the index down one point to a reading of 9, while the index for average wages gained two points, finishing at 11.

Expectations

Producers remained optimistic about business conditions for the next six months. They continued to expect solid growth in shipments and in the volume of new orders. The indexes for expected shipments and new orders moved up to 43 and 41, respectively, slightly above their outlook of a month ago.

Survey participants expected backlogs would rise at a faster pace in the next six months. The outlook index rose six points to 17. Firms expected little change in vendor lead times in the months ahead, compared to last month’s outlook. That index moved down 13 points, finishing at -1. Manufacturers anticipated capital spending would grow at a slower rate; the index dropped to 25 from last month’s reading of 38. The index for future capacity utilization gained six points this month to end at a reading of 32.

The index for expected employment gained one point from last month’s reading to finish at 18. The index for expected average wages moved down nine points to end at 26. Additionally, the expected

average workweek gauge slipped one point to settle at a reading of 9.

Prices

Prices of raw materials rose somewhat faster this month, advancing at an annualized 2.22 percent rate, compared to a 2.10 percent rate previously. Prices of finished goods rose at a 1.23 percent annualized rate, above September’s 1.17 percent pace.

For the six months ahead, survey respondents expected input prices would rise more slowly, at an annualized 1.90 percent rate, following September’s expectation for 2.00 percent growth. Finished goods prices were expected to rise at an annualized 1.46 percent rate, compared to the previous expectation for 1.19 percent growth.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Oct -14	Sep-14	Aug-14	Oct-14	Sep-14	Aug-14
Fifth District Manufacturing Index ³	20	14	12	--	--	--
Company Conditions						
Shipments	23	11	10	43	41	43
Volume of New Orders	22	14	13	41	37	47
Backlog of Orders	9	6	15	17	11	29
Capacity Utilization	13	13	17	32	26	35
Vendor Lead-time	12	10	16	-1	12	8
Number of Employees	14	17	11	18	17	18
Average Workweek	9	10	8	9	10	10
Wages	11	9	11	26	35	28
Capital Expenditures	--	--	--	25	38	27
Inventory Levels						
Finished Goods Inventories	15	23	16	--	--	--
Raw Materials Inventories	19	20	17	--	--	--
Price Trends⁴						
Prices Paid	2.22	2.10	1.39	1.90	2.00	2.05
Prices Received	1.23	1.17	0.76	1.46	1.19	1.34

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 85 firms.
- 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 as percent change, annualized.