

Regional Surveys of Business Activity

Fifth District Survey of Manufacturing Activity

Manufacturing Sector Activity Grew Modestly; Employment Growth Remained Moderate

Overview

Fifth District manufacturing activity grew modestly in November, according to the most recent survey by the Federal Reserve Bank of Richmond. Shipments and the volume of new orders flattened this month, while manufacturing employment and average wage growth continued at a moderate pace. The average workweek lengthened at a slightly slower pace than a month ago.

Firms anticipated positive business conditions during the next six months, although expectations were less upbeat than a month ago. Manufacturers expected faster growth in shipments and in the volume of new orders compared to this month. Additionally, survey participants anticipated increased capacity utilization and expected order backlogs to grow more quickly. However, producers looked for little change in vendor lead times.

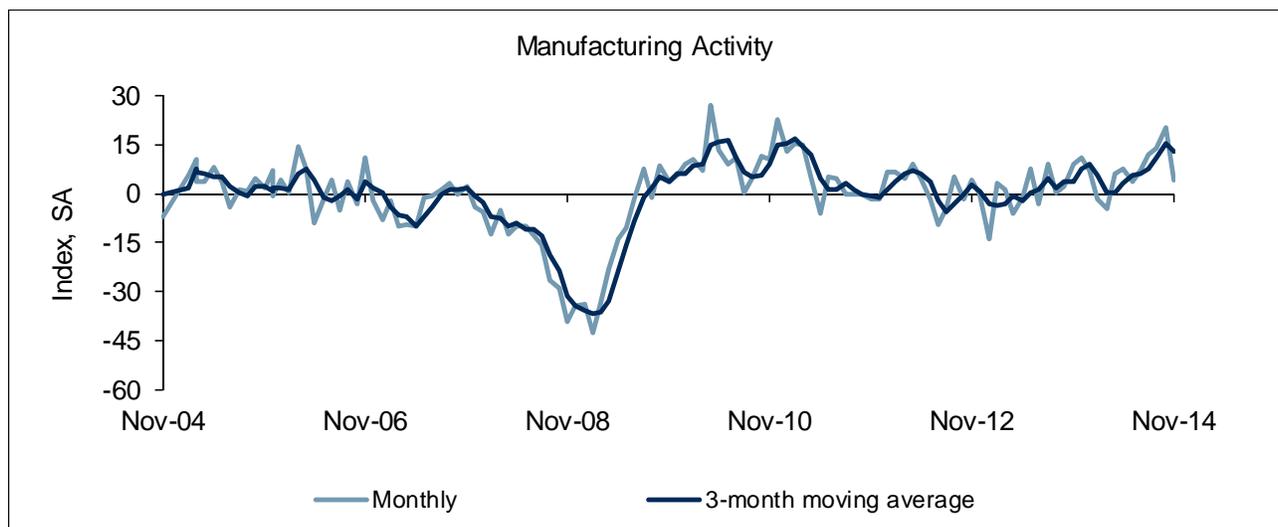
Manufacturers' outlook for the months ahead included faster growth in the number of employees and average wages than in the current month, with modest growth in the length of the average workweek.

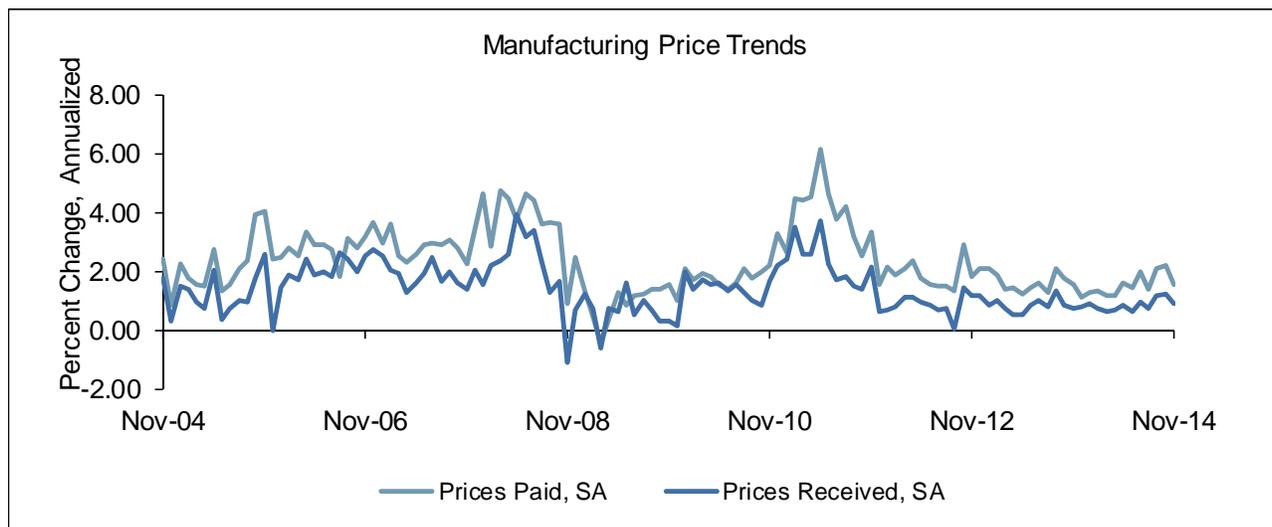
Prices of raw materials and finished goods rose at a slower pace in November compared to last month. However, producers expected faster growth in prices paid and in prices received during the next six months.

Current Activity

Manufacturing activity slowed overall in November, with the composite index dropping to a reading of 4 from last month's reading of 20. Shipments and new orders changed little from a month ago; both indexes flattened to a reading of 1. Manufacturing hiring continued to grow at a moderate pace this month. The November indicator slipped four points to a reading of 10.

Capacity utilization grew at a steady pace this month. The index remained at 13 for a third consecutive month. Additionally, backlogs decreased this month, pulling the index down 11 points to -2. Vendor lead time lengthened at a slightly slower pace, moving the index to 7 from a reading of 12. Finished goods inventories rose more quickly than a month ago. The index gained five points to finish at 20. Additionally, raw materials inventories rose at a slightly faster rate





compared to last month. That gauge moved up four points to end at 23.

Employment

Manufacturing employment continued to grow at a moderate pace in November. The index ended the survey period at 10 compared to last month’s reading of 14. The average workweek increased at a slower rate this month. The index moved down four points to end at 5. However, the index for average wages gained four points to finish at a reading of 15.

Expectations

Manufacturers continued to expect solid growth in shipments and in the volume of new orders, although their outlook was less upbeat than a month earlier. The indexes for expected shipments and new orders weakened to 34 and 36, respectively, somewhat below their outlook of a month ago.

Survey participants also expected backlogs would build more slowly in the next six months. That outlook index shed five points to finish at a reading of 12. Producers anticipated vendor lead times would change little in the months ahead. That outlook index added three points to finish at 2. In addition, firms expected capital spending would grow more slowly. The index lost eight points to settle at 17. The index for future capacity utilization shed 11 points this month to end at a reading of 21.

Manufacturers planned to increase hiring in the months ahead, with the expected employment index edging up four points to a reading of 22. The index for expected average wages remained strong, trimming just two points to finish at 24, while the expected average workweek gauge remained at a reading of 9.

Prices

Prices of raw materials rose more slowly this month, advancing at an annualized 1.57 percent rate, compared to the previous 2.22 percent rate. Prices of finished goods rose at a 0.90 percent annualized rate, below October’s 1.23 percent pace.

For the six months ahead, survey respondents expected input prices would rise more quickly, at an annualized 2.05 percent rate. Finished goods prices were expected to rise at an annualized 1.12 percent rate, compared to the previous expectation for 1.46 percent growth.

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Business Activity Indexes^{1,4}

General Business Assessment	Current Conditions			Expectations ²		
	Nov -14	Oct-14	Sep-14	Nov-14	Oct-14	Sep-14
Fifth District Manufacturing Index ³	4	20	14	--	--	--
Company Conditions						
Shipments	1	23	11	34	43	41
Volume of New Orders	1	22	14	36	41	37
Backlog of Orders	-2	9	6	12	17	11
Capacity Utilization	13	13	13	21	32	26
Vendor Lead-time	7	12	10	2	-1	12
Number of Employees	10	14	17	22	18	17
Average Workweek	5	9	10	9	9	10
Wages	15	11	9	24	26	35
Capital Expenditures	--	--	--	17	25	38
Inventory Levels						
Finished Goods Inventories	20	15	23	--	--	--
Raw Materials Inventories	23	19	20	--	--	--
Price Trends⁴						
Prices Paid	1.57	2.22	2.10	2.05	1.90	2.00
Prices Received	0.90	1.23	1.17	1.12	1.46	1.19

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.