Regional Manufacturing Surveys Move in Opposite Directions

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The most recent Beige Book from the Federal Reserve Board [1] highlighted stronger manufacturing activity in the Midwest and West, with weaker production numbers in the Mid-Atlantic region. Todays regional manufacturing surveys have found that trend remains true.

First, the Federal Reserve Bank of Richmond notes continued contraction in the region, with its manufacturing index moving from -10 in August to -6 in September [2]. The index has been negative in four of the past five months. While the pace of the contraction slowed somewhat this month, there are definite worry signs when parsing through the subcomponents of the index. For instance, the volume of new orders fell from -11 in August to -17 in September; for this activity to pick up in the coming months we will need to see a pickup in new orders. This is definitely a concern.

On the positive side, the pace of hiring picked up, with the employment index increasing from 1 to 7. Interestingly, the average workweek and backlog of orders went in the other direction. Another piece of good news is that manufacturers were more optimistic about the next six months than in the previous survey. Measures for shipments, new orders and capacity utilization rose. Employment and capital spending indices, edged slightly lower, however.

In terms of inflation, respondents said that the price of raw materials is increasing at an annual rate of 2.8 percent, an improvement from the 4.16 percent found last month. The prices that they are receiving for their goods are increasing by 1.61 percent. Looking ahead, manufacturers are expecting price increases for raw materials to grow by 4.45 percent, suggesting continued pricing pressures.

In contrast to the Richmond survey, the Chicago Federal Reserve Bank reported that manufacturing production increased 0.6 percent in August, its fourth consecutive monthly gain [3]. For the year, the Midwest Manufacturing Index rose 7.6 percent, outpacing the 4.2 percent growth in national industrial production figures. In August, the machinery sector helped to propel manufacturing output in the Midwest; it was up 1.4 percent, reversing last months decline.

Moreover, both the auto and steel sectors grew by 0.8 percent in the month. Highlighting the strength of these two sectors to the region, their year-over-year growth rates in the Midwest were 10.3 percent and 17.1 percent, respectively. Both of these rates of growth exceeded their national averages.

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