

May 2018

Results from the May *Manufacturing Business Outlook Survey* suggest a pickup in growth of the region's manufacturing sector. The survey's indexes for general activity, new orders, shipments, and employment increased from their readings in April. A notable share of firms also reported higher prices for their own manufactured goods this month. The survey's future indexes, measuring expectations for the next six months, reflected continued optimism.

Current Indicators Suggest a Pickup in Growth

The diffusion index for current general activity increased 11 points, from 23.2 in April to 34.4 this month (see Chart 1). Over 43 percent of the manufacturers reported increases in overall activity this month, while 9 percent reported decreases. Both current new orders and shipments indexes improved this month, increasing 22 points and 2 points, respectively. Both the delivery times and unfilled orders indexes remained positive, suggesting longer delivery times and increases in unfilled orders. Inventories were, on balance, slightly higher this month: The percentage of firms reporting an increase in inventories (25 percent) was higher than the percentage reporting a decrease (17 percent).

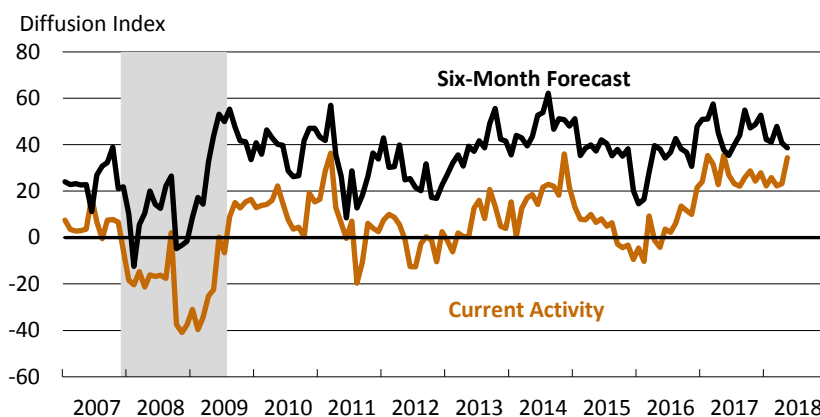
The firms continued to report overall increases in employment. Nearly 37 percent of the responding firms reported increases in employment, while 6 percent reported decreases this month. The current employment index edged 3 points higher to 30.2, its highest reading in seven months. The firms also reported a longer average workweek this month: The current average workweek index increased 13 points.

Price Indexes Suggest Increasing Prices

Price increases for purchased inputs were reported by 55 percent of the manufacturers this month, down slightly from 59 percent in April. The prices paid diffusion index fell 4 points but remains at an elevated level (see Chart 2). The current prices received index, reflecting the manufacturers' own prices, increased 7 points to a reading of 36.4, its second consecutive month of increase and highest reading since February 1989.

Chart 1. Current and Future General Activity Indexes

January 2007 to May 2018



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

Firms Remain Optimistic

The diffusion index for future general activity decreased from 40.7 in April to 38.7 this month (see Chart 1). Over 48 percent of the firms expect increases in activity over the next six months, while 10 percent expect declines. The future new orders index edged 3 points higher, while the future shipments index declined 1 point. Nearly 64 percent of the firms expect price increases for purchased inputs over the next six months, and 36 percent expect higher prices for their own manufactured goods. Over 49 percent of the firms expect to add workers over the next six months, up from 42 percent in April. The future employment index increased 8 points to a reading of 42.8, its highest reading since August 1983.

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The *Manufacturing Business Outlook Survey*, which is the oldest regional Federal Reserve manufacturing survey, turns 50 this month. Read more about the history of the survey at www.PhiladelphiaFed.org/MBOS50.

The June 2018 *Manufacturing Business Outlook Survey* will be released on June 21, 2018, at 8:30 a.m. ET.



Firms Expect Own Prices to Exceed Inflation Rate

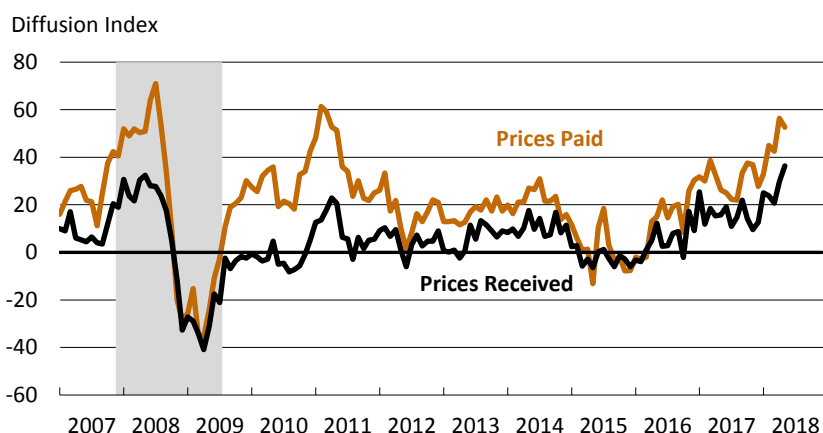
In this month's special questions, the firms were asked to forecast the changes in the prices of their own products and for U.S. consumers over the next four quarters. Regarding their own prices, the firms' median forecast was for an increase of 3.0 percent, the same as when the same question was last asked in February. When asked about the rate of inflation for U.S. consumers over the next year, the firms' median forecast was 2.5 percent, also the same as the previous forecast. The firms expect their employee compensation costs (wages plus benefits on a per employee basis) to rise 3.0 percent over the next four quarters, the same as the previous forecast. The firms' forecast for the long-run (10-year average) inflation rate fell from 3.0 percent to 2.0 percent.

Summary

Responses to the May *Manufacturing Business Outlook Survey* indicate a pickup in growth for the region's manufacturing sector. The indexes for general activity, new orders, shipments, and employment all improved from their

Chart 2. Current Prices Paid and Prices Received Indexes

January 2007 to May 2018



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

readings last month. The indexes for prices paid and received continued to suggest price pressures. Looking ahead six months, the firms continued to be optimistic about the outlook for manufacturing activity. ■

MANUFACTURING BUSINESS OUTLOOK SURVEY May 2018	May vs. April					Six Months from Now vs. May				
	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	23.2	43.2	47.8	8.8	34.4	40.7	48.3	30.1	9.6	38.7
Company Business Indicators										
New Orders	18.4	48.4	42.4	7.7	40.6	37.2	51.5	32.9	11.2	40.3
Shipments	23.9	38.9	47.9	13.1	25.8	47.9	58.6	25.1	11.8	46.8
Unfilled Orders	7.8	25.8	63.0	10.6	15.3	7.6	23.2	59.8	13.8	9.4
Delivery Times	20.7	24.3	69.2	5.8	18.5	9.6	15.8	70.3	8.3	7.5
Inventories	9.5	25.3	54.3	17.3	8.1	16.5	28.5	52.7	13.8	14.8
Prices Paid	56.4	54.6	42.7	2.0	52.6	66.8	63.8	32.9	0.4	63.4
Prices Received	29.8	36.4	63.6	0.0	36.4	47.9	36.1	55.1	2.5	33.6
Number of Employees	27.1	36.7	55.1	6.4	30.2	34.6	49.2	38.8	6.3	42.8
Average Employee Workweek	21.6	36.4	61.4	2.0	34.4	14.0	19.2	67.1	9.1	10.1
Capital Expenditures	--	--	--	--	--	29.8	30.9	54.7	9.2	21.6
NOTES:										
(1) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.										
(2) All data are seasonally adjusted.										
(3) Percentages may not sum to 100 percent because of rounding, omission by respondents, or both.										
(4) Survey results reflect data received through May 15, 2018.										



Special Questions (May 2018)		
Over the next year (2018:Q2 to 2019:Q2), please list your expected annual percent change with respect to the following:		
	Current Forecast	Previous Forecast (February 2018)
1. For your firm:		
Prices your firm will receive (for its own goods and services sold).	3.0	3.0
Compensation your firm will pay per employee (for wages and benefits).	3.0	3.0
2. For your employees:		
Prices your employees will pay (for goods and services where they live).	2.0	2.5
3. For U.S. consumers:		
Prices U.S. consumers will pay (for goods and services).	2.5	2.5
For the next 10 years (2018 through 2027), what is your expected annual average percent change with respect to the following:		
4. For U.S. consumers:		
Prices U.S. consumers will pay (for goods and services).	2.0	3.0
The numbers represent medians of the individual forecasts (as percent changes). The forecasts are over the next year for questions 1 to 3 and an annual average for the next 10 years for question 4.		

