

January 2020

Manufacturing activity in the region increased this month, according to results from the January *Manufacturing Business Outlook Survey*. The survey's indicators for current activity, new orders, shipments, and employment were all positive and increased from their readings in December. The survey's future activity indexes remained at relatively high readings, suggesting continued optimism about growth for the next six months.

Current Indicators Improved This Month

The diffusion index for current general activity increased nearly 15 points this month, from a revised reading of 2.4 in December to 17.0 (see Chart 1).* The percentage of the firms reporting increases (39 percent) was greater than the percentage reporting decreases (22 percent). The indexes for current shipments and new orders also moved higher: The current new orders index increased 7 points, and the shipments index increased 8 points. The indexes for unfilled orders and delivery times changed from positive to negative readings this month, suggesting decreased unfilled orders and shorter delivery times. On balance, the firms also reported a slight decline in inventories.

Manufacturers continued to report expanding employment this month. The employment index increased 3 points to 19.3. Nearly 28 percent of the firms reported higher employment, while 9 percent reported lower employment. The average workweek index remained positive but edged down 3 points.

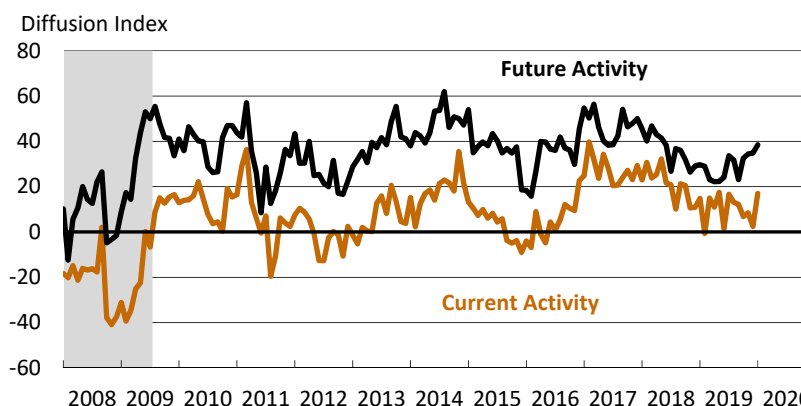
Released: January 16, 2020, 8:30 a.m. ET.

The February 2020 *Manufacturing Business Outlook Survey* will be released on February 20, 2020, at 8:30 a.m. ET.

* The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on January 9, 2020. The full set of revised historical data is available at www.philadelphiafed.org/mbos-histrev2020.

Chart 1. Current and Future General Activity Indexes

January 2008 to January 2020



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.

Price Indexes Edge Higher

The firms continued to report overall increases in the prices paid for inputs, with the index rising 6 points to 22.1 (see Chart 2). Nearly 27 percent of the respondents reported higher input prices; only 5 percent reported lower input prices. The largest percentage of the firms (68 percent) reported steady input prices. The current prices received index, reflecting the manufacturers' own prices, increased 4 points to 14.7. More than 18 percent reported higher prices for their manufactured products, 3 percent reported lower prices, and over 78 percent reported no change in their prices.

Firms Expect to Increase Production in the Near Term

In the Special Questions this month, the firms were asked to characterize demand for their products over the past few months and to forecast their production for the first quarter of the year (see Special Questions on page 3). Most firms (44 percent) reported an increase in underlying demand, but 31 percent characterized underlying demand as decreasing in recent months. Over 62 percent of the firms anticipate increasing production in the first quarter, while 33 percent



expect decreases. Among the firms expecting an increase in production, 25 percent indicated that this would be accomplished with additional workers. But most indicated higher production would be accomplished without additional hiring: Thirty-three percent would increase the hours of existing workers, while 36 percent indicated production could be increased with higher productivity of existing workers.

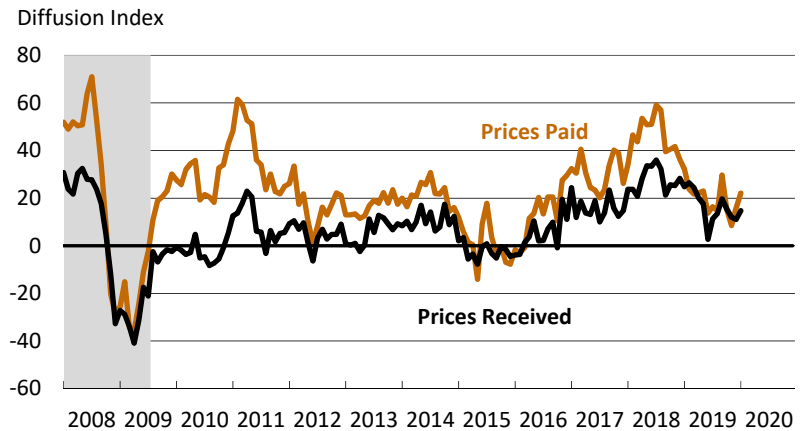
Firms Remain Generally Optimistic

The diffusion index for future general activity edged up 4 points, from a revised reading of 34.8 in December to 38.4 in January (see Chart 1). More than 49 percent of the firms expect increases in activity over the next six months, while 11 percent expect declines. The future new orders and shipments indexes also increased, by 8 points and 4 points, respectively. The future employment index decreased 3 points this month, but the firms remain optimistic about future hiring overall: One-third of the firms expect higher employment over the next six months. The firms were more optimistic about future capital spending: The future capital expenditures index increased 7 points, with 39 percent expecting higher capital spending over the next six months.

Summary

The January *Manufacturing Business Outlook Survey* indicated growth in the region's manufacturing sector this month. All of the survey's broad indicators remained positive and increased from their readings in December. The survey's

Chart 2. Current Prices Paid and Prices Received Indexes
January 2008 to January 2020



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.

future indexes indicate that respondents continue to expect growth over the next six months. ■

MANUFACTURING BUSINESS OUTLOOK SURVEY January 2020	January vs. December					Six Months from Now vs. January				
	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?	2.4	38.5	38.1	21.5	17.0	34.8	49.2	35.9	10.8	38.4
Company Business Indicators										
New Orders	11.1	45.7	26.9	27.5	18.2	33.6	53.8	29.7	12.0	41.9
Shipments	15.7	42.3	37.8	18.9	23.4	38.7	55.5	26.0	13.1	42.4
Unfilled Orders	8.6	14.4	61.9	18.1	-3.7	12.5	29.1	56.0	11.2	17.9
Delivery Times	12.5	9.1	75.8	9.4	-0.4	-1.3	11.9	75.4	9.2	2.7
Inventories	5.0	22.3	50.1	24.6	-2.3	6.0	23.5	57.0	13.5	10.1
Prices Paid	15.9	26.9	67.7	4.8	22.1	46.0	43.3	49.4	1.4	41.9
Prices Received	11.0	18.1	78.3	3.4	14.7	45.1	36.2	58.4	2.2	34.0
Number of Employees	16.8	27.7	62.1	8.5	19.3	27.4	33.3	53.9	9.0	24.3
Average Employee Workweek	8.5	16.5	68.8	11.3	5.2	17.5	23.2	62.0	10.0	13.2
Capital Expenditures	--	--	--	--	--	26.0	39.1	52.6	6.2	32.9

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 January 13, 2020.

Special Questions (January 2020)		
1. Over the past several months, how would you characterize the underlying demand for your manufactured products? <i>Exclude any purely seasonal effects.</i>		
	% of firms	Subtotals
Significant increase	8.5	% of firms reporting increasing demand: 44.1
Modest increase	35.6	
No change	25.4	
Modest decrease	23.7	% of firms reporting decreasing demand: 30.5
Significant decrease	6.8	
2. How will your firm's total production for the first quarter of 2020 compare with that of the last quarter of 2019?		
An increase of:		
10% or more	5.2	% of firms expecting an increase: 62.0
8–10%	5.2	
6–8%	1.7	
4–6%	8.6	
2–4%	22.4	
1–2%	17.2	
less than 1%	1.7	
No change	5.2	
A decline of:		
less than 1%	1.7	% of firms expecting a decrease: 32.7
1–2%	12.1	
2–4%	3.4	
4–6%	5.2	
6–8%	1.7	
8–10%	1.7	
10% or more	6.9	
3. If you expect to increase production in the next quarter, this will be accomplished by:		
	% of firms	
Hiring additional workers	25.0	
Increasing work hours of current staff, without hiring additional workers	33.3	
Increasing productivity of current staff, without hiring additional workers	36.1	
Other	5.6	