

May 2020

Note: Survey responses were collected from May 11 to May 18.

Manufacturing firms reported continued weakness in regional manufacturing activity this month, according to results from the *Manufacturing Business Outlook Survey*. Despite remaining well below zero, the survey's current indicators for general activity, new orders, shipments, and employment rose this month after reaching long-term low readings in April. The firms expect the current slump in manufacturing activity to last less than six months, as the broadest indicator of future activity strengthened further from last month's reading; furthermore, the firms continue to expect overall growth in new orders, shipments, and employment over the next six months.

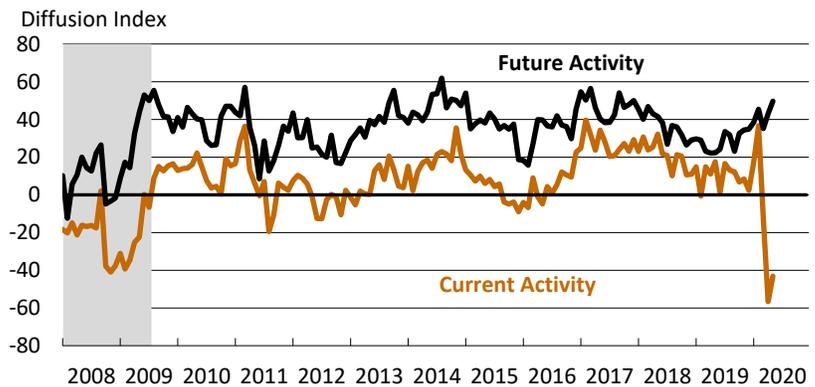
Current Indicators Remain Negative but Climb from Long-Term Lows

After reaching a 40-year low in April, the diffusion index for current general activity rose 13 points to -43.1, its third consecutive negative reading (see Chart). The percentage of firms reporting decreases this month (58 percent) far exceeded the percentage reporting increases (15 percent). The index for new orders rose 45 points out of an all-time low for the series last month, from -70.9 to -25.7. Over 25 percent of the firms reported an increase in new orders, up from none in April, while 51 percent reported decreases, down from 71 percent last month. The current shipments index increased 44 points out of an all-time low last month, from -74.1 to -30.3. Unfilled orders held steady at -13.7, while delivery times fell 11 points to -6.7, suggesting shorter delivery times.

The firms continued to report overall decreases in manufacturing employment this month, but the current employment index increased 31 points to -15.3. Nearly 9 percent of the firms reported higher employment, compared with none last month, while 24 percent reported decreases, down from 47 percent last month. The average workweek index increased 47 points to -7.1.

Current and Future General Activity Indexes

January 2008 to May 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.

Firms Report Increases in Prices of Their Inputs

The prices paid diffusion index increased 13 points to 3.2. The percentage of firms reporting increases in input prices (16 percent) was higher than the percentage reporting decreases (13 percent). The current prices received index rose 8 points to a reading of -3.1, its second consecutive negative reading.

Firms Expect Own Prices to Rise Slower Than Inflation

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 1.0 percent, lower than the 2.5 percent that was forecast when the same question was last asked in February. The firms' actual price change over the past year was 0.0 percent, down from 2.0 percent in the prior quarter. The firms expect their employee compensation costs (wages plus benefits on a per employee basis) to rise 2.5 percent over the next four quarters, a decrease from 3.0 percent in the previous quarter. When asked about the rate of inflation for U.S. consumers over the next year, the firms' median

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forecast was unchanged at 2.0 percent. The firms' median forecast for the long-run (10-year average) inflation rate was 3.0 percent, an increase from 2.5 percent in the previous quarter.

Most Future Indicators Remain Elevated

Despite the current weakened conditions, the respondents remained optimistic about growth over the next six months. The diffusion index for future general activity rose 7 points to 49.7 (see Chart). Over 62 percent of the firms expect increases in activity over the next six months, while 13 percent expect declines. The future new orders index increased 18 points, while the future shipments index held steady this month. The future inventories index fell 15 points to a reading of -1.4. The firms' expectations for employment over the next six months remained positive but fell 10 points this month: Nearly 35 percent of the firms expect higher employment, while 18 percent expect lower employment.

Summary

Responses to the *May Manufacturing Business Outlook Survey* suggest a continued weakening in manufacturing activity this month. The indicators for current activity, new orders, shipments, and employment increased from their long-term low readings in April but remained negative. The survey's future indexes, however, remained elevated, suggesting that respondents expect growth in manufacturing activity to pick back up over a horizon of six months. ■

Special Questions (May 2020)		
Please list the annual percent change with respect to the following:		
	Current	Previous (February 2020)
For your firm:		
<i>Forecast for next year (2020Q2–2021Q2)</i>		
1. Prices your firm will receive (for its own goods and services sold).	1.0	2.5
2. Compensation your firm will pay per employee (for wages and benefits).	2.5	3.0
<i>Last year's price change (2019Q2–2020Q2)</i>		
3. Prices your firm did receive (for its own goods and services sold) over the last year.	0.0	2.0
For U.S. consumers:		
4. Prices consumers will pay for goods and services over the next year.	2.0	2.0
5. Prices U.S. consumers will pay for goods and services over the next 10 years (2020–2029).	3.0	2.5
The numbers represent medians of the individual forecasts (percent changes). For question 5, firms reported a 10-year annual-average change.		

MANUFACTURING BUSINESS OUTLOOK SURVEY May 2020	May vs. April					Six Months from Now vs. May				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	-56.6	14.9	27.0	58.1	-43.1	43.0	62.4	19.0	12.8	49.7
Company Business Indicators										
New Orders	-70.9	25.3	23.8	50.9	-25.7	36.5	64.8	16.3	10.1	54.7
Shipments	-74.1	19.1	30.8	49.4	-30.3	46.0	55.9	22.3	9.9	46.0
Unfilled Orders	-13.5	18.5	48.7	32.2	-13.7	17.0	23.2	49.1	17.2	6.0
Delivery Times	4.1	15.6	62.1	22.3	-6.7	1.4	17.9	58.9	12.8	5.1
Inventories	-10.2	36.3	36.7	24.6	11.7	13.7	25.6	35.7	27.0	-1.4
Prices Paid	-9.3	16.2	70.6	13.0	3.2	25.5	29.5	50.7	8.4	21.2
Prices Received	-10.6	6.4	84.1	9.5	-3.1	16.9	24.3	59.5	8.7	15.6
Number of Employees	-46.7	8.5	64.4	23.8	-15.3	26.6	34.5	36.2	18.3	16.2
Average Employee Workweek	-54.5	15.2	61.5	22.3	-7.1	26.0	27.5	52.3	8.0	19.6
Capital Expenditures	--	--	--	--	--	12.4	29.1	44.7	13.9	15.2
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 18, 2020.										