

March 2021

Note: Survey responses were collected from March 8 to March 15.

Manufacturing conditions in the region strengthened further this month, according to firms responding to the March *Manufacturing Business Outlook Survey*. The indicators for general activity and new orders rose sharply, and the shipments and employment indexes also increased. Price pressures also rose, according to the surveyed firms. All of the survey's indexes for future conditions increased, as the firms indicated more widespread optimism about growth over the next six months.

Current Activity Index Hits 50-Year High

The index for current manufacturing activity in the region jumped from a reading of 23.1 in February to 51.8 this month, its highest point in nearly 50 years (see Chart 1). Nearly 59 percent of the firms reported increases in current activity this month (up from 35 percent last month), while only 7 percent reported decreases (down from 11 percent). The current new orders index also increased substantially to a 50-year high, rising 28 points to 50.9 in March. The current shipments index increased 9 points to 30.2.

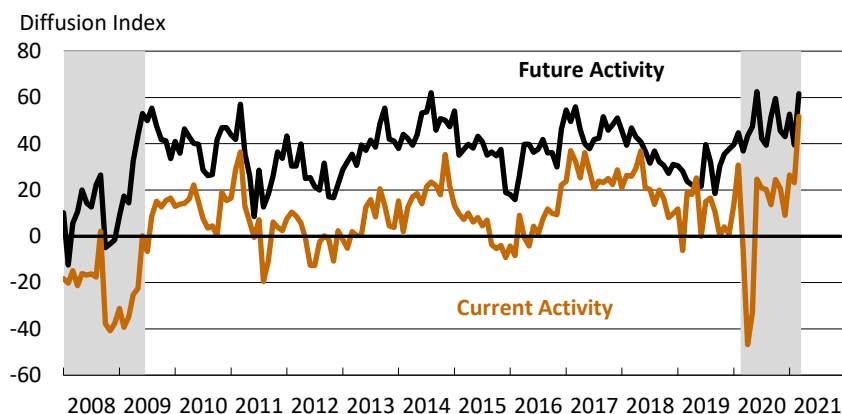
The firms continued to add to their payrolls this month. The current employment index increased from a reading of 25.3 in February to 30.1 this month. Nearly 32 percent of the responding firms reported increases in employment, while only 1 percent of the firms reported decreases. The current workweek index increased 9 points to 39.7.

Price Increases Are More Widespread

The firms continued to report price pressures from purchased inputs. The prices paid index rose sharply from 54.4 to 75.9, its highest reading since March 1980 (see Chart 2). Over 77 percent of the firms reported higher input prices this month, up from 55 percent last month. With respect to prices received for firms' own manufactured goods, 35 percent of the firms reported higher prices, up from 18 percent last month. The prices received index increased 15 points to 31.8.

Chart 1. Current and Future General Activity Indexes

January 2008 to March 2021



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' Optimism for Growth Expands

The diffusion index for future general activity more than recovered from its decline last month, rising 22 points to 61.6 this month, its highest reading since June 2020 (see Chart 1). Nearly 70 percent of the firms expect increases in activity over the next six months (up from 55 percent last month), while 8 percent expect declines (down from 15 percent). The future new orders and shipments indexes also rebounded, rising 15 points and 24 points, respectively. The future employment index rose 12 points to 46.9. The percentage of firms expecting to increase employment over the next six months (51 percent) remained higher than the percentage expecting to decrease employment (4 percent). The future capital spending index rose 11 points to 35.9.

The seasonal factors that our researchers at the Philadelphia Fed use to calculate the survey's diffusion indexes were affected by atypical patterns because of the onset of the pandemic one year ago. For several variables, revised seasonal factors shifted by much more than is normal. We may revise our seasonal adjustment approach after further investigation.

Released: March 18, 2021, 8:30 a.m. ET.

The April 2021 *Manufacturing Business Outlook Survey* will be released on April 15, 2021, at 8:30 a.m. ET.

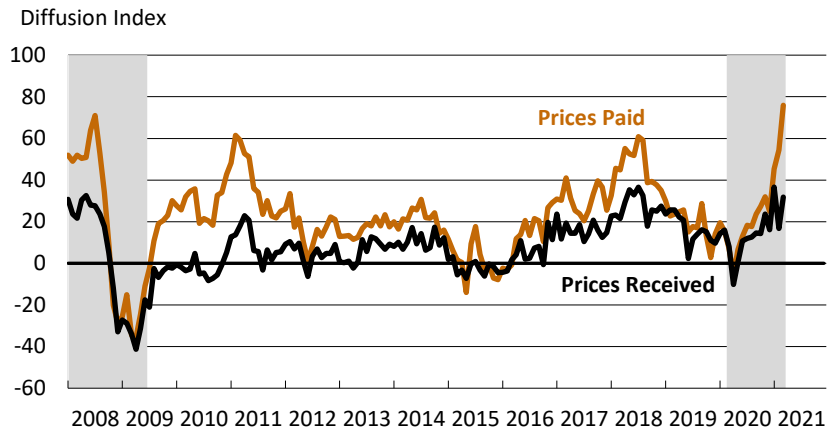


Firms Report Difficulties Finding Skilled Workers

In special questions this month, the firms were asked generally about worker shortages, any perceived mismatches between skill requirements and labor supply, and the ways in which they were dealing with these problems (see Special Questions on page 3). Over 64 percent of the firms indicated labor shortages, while 59 percent indicated skills mismatches between requirements and available labor. Nearly 45 percent of the surveyed firms also reported that they had positions that have remained vacant for more than three months. A sizable share of firms (29 percent) reported seeing a significant shortage in qualified applicants for some skills and positions, while 18 percent of the firms reported seeing a broad labor shortage, such that it is hard to fill any position. In addition to increasing wages and stepping up recruiting efforts, the firms have adopted a mix of strategies to deal with these problems, including increasing training of existing employees and new hires. Nearly 43 percent of the firms indicated that they have hired less qualified workers to meet their labor requirements.

Chart 2. Current Prices Paid and Prices Received Indexes

January 2008 to March 2021



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.

Summary

The firms' responses indicated widespread growth in the region's manufacturing sector this month. The survey's broadest measures for activity, new orders, shipments, and employment all increased, with the former two indexes reaching long-term highs. Additionally, the firms have indicated mounting price pressures. The survey's future indexes indicate more optimism about continued growth over the next six months.

MANUFACTURING BUSINESS OUTLOOK SURVEY March 2021	March vs. February					Six Months from Now vs. March				
	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?	23.1	58.9	34.0	7.1	51.8	39.5	69.6	13.8	8.0	61.6
Company Business Indicators										
New Orders	23.4	57.9	35.1	7.0	50.9	36.6	63.1	19.1	11.8	51.2
Shipments	21.5	43.8	39.9	13.7	30.2	32.3	67.2	19.5	10.7	56.5
Unfilled Orders	12.6	34.8	52.2	13.0	21.8	6.0	24.5	58.0	12.4	12.1
Delivery Times	15.1	31.8	63.4	2.4	29.5	-0.3	25.0	60.4	7.7	17.3
Inventories	20.0	29.6	52.9	17.5	12.1	11.6	40.0	34.5	18.4	21.6
Prices Paid	54.4	77.4	21.0	1.6	75.9	53.6	72.9	15.7	5.2	67.7
Prices Received	16.7	34.8	60.3	3.0	31.8	37.8	54.3	33.5	3.6	50.6
Number of Employees	25.3	31.5	64.0	1.4	30.1	34.7	50.8	41.4	3.8	46.9
Average Employee Workweek	30.6	42.1	51.0	2.4	39.7	10.3	24.7	57.5	13.6	11.1
Capital Expenditures	--	--	--	--	--	25.2	38.7	50.3	2.8	35.9

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 March 15, 2021.

Special Questions (March 2021)	
1. Has your firm experienced any significant labor shortages or mismatch between labor skill requirements and labor supply? (Check as many as apply)*	
	Percent (%)
Labor shortages	64.3
Skills mismatch	58.9
Job vacancies remaining more than three months	44.6
2. Is your firm experiencing a labor shortage in general or in certain skills, abilities, or positions?	
We are hiring and receive a sufficient number of qualified applicants to fill open positions.	8.9
We are seeing a significant shortage in qualified applicants for some skills and positions.	28.6
We are seeing a tightening labor market, such that it is getting harder to fill positions in general, but still possible to fill them.	21.4
We are seeing a broad labor shortage, such that it is hard to fill any position.	17.9
We are not hiring.	19.6
Not applicable	1.8
No response	1.8
3. What actions has your firm taken to address skills shortages? (Check as many actions as apply)*	
Increase recruitment efforts	57.1
Increased wages	53.6
Have hired less qualified workers to meet labor requirements	42.9
Increased training for hired workers	37.5
Provided additional training to existing staff	28.6
Partner with educational institution to align curriculum with talent needs	23.2
Increase recruitment incentives	21.4
Expand recruitment outside of the region	14.3
Phased retirement program to retain older workers	14.3
Decreased production	12.5
Increase benefits	10.7
Other	7.1
*Percentage will not add to 100 percent because more than one action could be selected.	

