



BUSINESS OUTLOOK SURVEY

January 2014

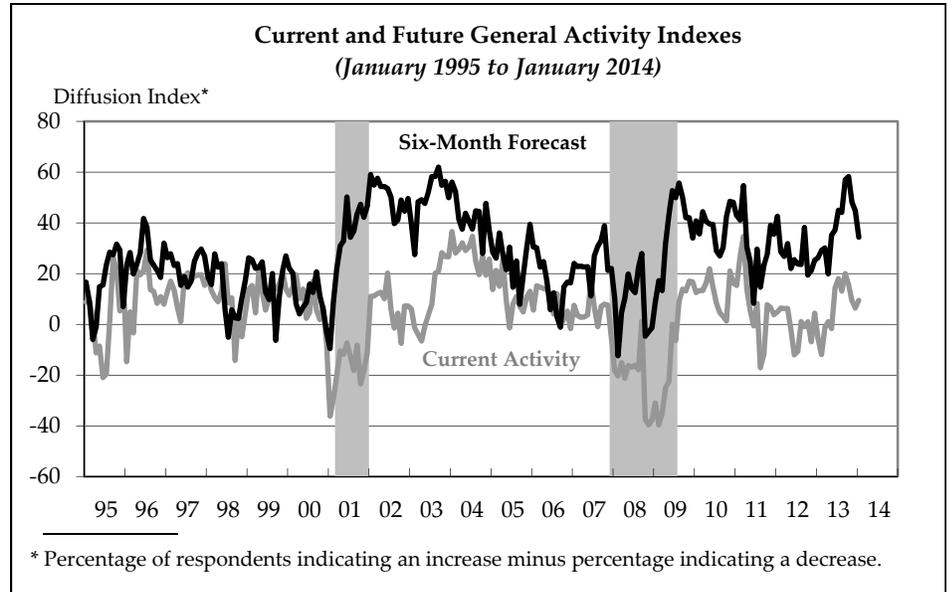
Manufacturing growth in the region continued in January, according to firms responding to this month's *Business Outlook Survey*. The survey's broadest indicators for general activity, new orders, shipments, and employment were positive, signifying continued moderate growth. The survey's indicators of future activity moderated but continue to suggest general optimism about growth over the next six months.

Indicators Suggest Continued Moderate Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from a revised reading of 6.4 in December to 9.4 this month (see Chart).^{*} The index has now been positive for eight consecutive months.

The current shipments and new orders indexes remained positive but moved in opposite directions compared with December. The demand for manufactured goods, as measured by the current new orders index, decreased from a revised reading of 12.9 to 5.1 this month. Shipments continued to expand, and its index edged slightly higher to a reading of 12.1.

Labor market indicators showed some improvement this month. The current employment index increased 6 points from its revised reading in December. Twenty-three percent of the firms reported increases in employment in January, which is slightly higher than the 18 percent that reported increased employment last month. Firms reported reduced work hours, with the average workweek index falling from 4.8 to -5.3.



Cost pressures were slightly more widespread this month among reporting firms: The prices paid index increased 2 points, to 18.7. But with respect to firms' own manufactured goods, price increases were less widespread this month: The prices received index decreased 6 points, to 5.1.

Six-Month Indicators Moderate

The survey's future indicators have recently shown moderating optimism about growth in manufacturing. This month, the future general activity index fell 10 points, from a revised reading of 44.8 in December to 34.4 this month (see Chart). Still, nearly 48 percent of the firms expect increases in activity over the next six months; 13 percent of the firms indicated that they expect decreases. The indexes for future new orders and shipments also remained at relatively high levels but fell 7 points and 9 points, respectively. The future employment index

was virtually unchanged at 17.5, with nearly 25 percent of the firms expecting to increase employment over the next six months.

In this month's special questions, firms were asked about the factors that are influencing their hiring plans over a longer horizon of 12 months (see Special Questions). The percentage of firms that indicated they expect employment growth over the next year (41 percent) exceeded the percentage expecting decreased employment growth

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The February *Business Outlook Survey* will be released on February 20, 2014, at 10:00 a.m. ET.

^{*} The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on January 9, 2014. The full set of revised historical data is available at: <http://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/historical-data/revisions/historical-revisions-2014.cfm>.

(10 percent) by a significant margin. Nearly all firms responded to a question about the factors that were restraining hiring. The most frequently cited factors restraining hiring were the need to keep operating costs low and low expectations for sales growth. Expected slow sales growth was the most frequently cited “most important” factor restraining hiring. Difficulty finding workers with appropriate skills and uncertainty about the cost of health-care insurance also ranked high.

Summary

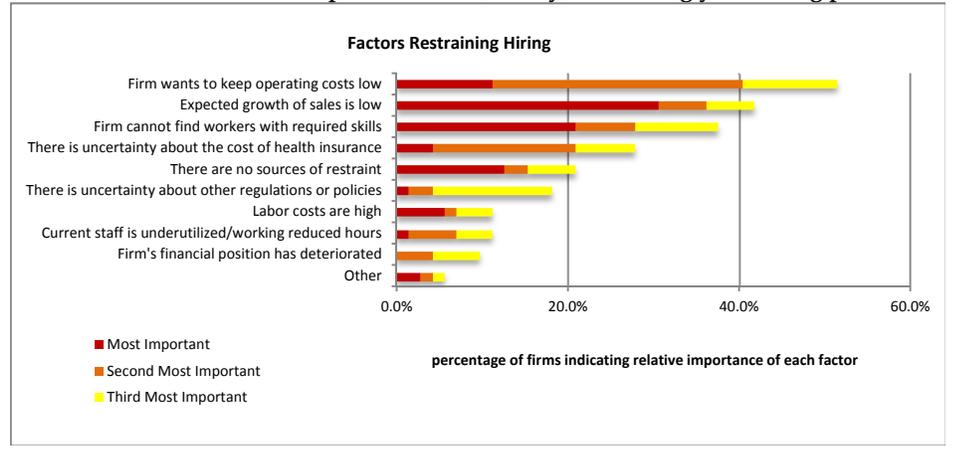
The January *Business Outlook Survey* suggests that activity in the region’s manufacturing sector increased moderately this month. Firms reported increases in overall activity, new orders, and employment in January. Price increases for firms’ own manufactured goods were less widespread this month. The survey’s future activity indexes suggest that firms expect growth over the first half of 2014.

Special Questions (January 2014)

1. Do you expect your firm to increase employment, leave unchanged, or decrease employment over the next 12 months?

Increase	41.1%
Unchanged	45.2%
Decrease	9.6%
NR	4.1%
	100.0%

2. What are the three most important factors, if any, restraining your hiring plans?



BUSINESS OUTLOOK SURVEY January 2014	January vs. December					Six Months from Now vs. January				
	<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?	6.4	26.9	54.8	17.5	9.4	44.8	47.6	27.0	13.2	34.4
Company Business Indicators										
New Orders	12.9	26.9	50.5	21.8	5.1	45.7	51.1	28.8	12.7	38.4
Shipments	11.9	32.7	42.1	20.6	12.1	42.0	48.9	29.1	15.6	33.2
Unfilled Orders	-6.6	14.9	66.1	15.9	-1.0	11.9	20.9	58.0	9.6	11.3
Delivery Times	-8.0	7.8	72.0	10.6	-2.8	2.2	5.2	67.2	15.8	-10.6
Inventories	16.0	9.5	61.4	29.1	-19.6	0.6	19.9	48.8	20.2	-0.2
Prices Paid	16.4	24.8	67.9	6.0	18.7	39.1	39.2	48.2	3.9	35.3
Prices Received	10.8	13.5	78.1	8.4	5.1	34.8	21.3	61.9	9.5	11.8
Number of Employees	4.4	23.1	62.1	13.1	10.0	18.2	24.5	60.0	7.0	17.5
Average Employee Workweek	4.8	17.9	58.8	23.3	-5.3	9.5	19.9	56.0	14.4	5.5
Capital Expenditures	--	--	--	--	--	12.8	24.0	54.9	8.9	15.1

NOTES:

- (1) Items may not add up to 100 percent because of omission by respondents.
- (2) All data are seasonally adjusted.
- (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.
- (4) Survey results reflect data received through January 14, 2014.