



BUSINESS OUTLOOK SURVEY

May 2014

Manufacturing firms responding to the May *Business Outlook Survey* indicated that regional manufacturing activity expanded this month. The survey's indicators for general activity, new orders, and shipments were positive for the third consecutive month, although they fell slightly from higher readings last month. Employment continued to increase for the reporting firms. The survey's indicators of future activity improved, suggesting that firms remain optimistic about continued growth over the next six months.

Indicators Reflect Continued Growth

The diffusion index of current general activity decreased slightly from a reading of 16.6 in April to 15.4 this month. The index has remained positive for three consecutive months, following the weather-influenced negative reading in February (see Chart). The new orders and current shipments indexes also remained positive but moved lower this month, decreasing 4 points and 9 points, respectively.

Indicators suggest slightly improved labor market conditions this month. The employment index remained positive for the 11th consecutive month but increased only 1 point. The percentage of firms reporting increases in employment (19 percent) remained higher than the percentage reporting decreases (11 percent). The workweek index was also positive for the third consecutive month but edged 2 points lower.

Some Firms Report Higher Prices

The survey's price diffusion indexes sug-

gest that price increases were more widespread this month. The prices received index, reflecting firms' own final goods prices, increased notably, from 4.3 to 17.0. This is the highest reading since May 2011. Although the percent of firms that reported receiving higher prices (18 percent) exceeded the percentage reporting lower prices (1 percent), 79 percent of the firms reported steady prices. The prices paid index was also higher, increasing 12 points to 23.0, but followed three consecutive months of decline in the index.

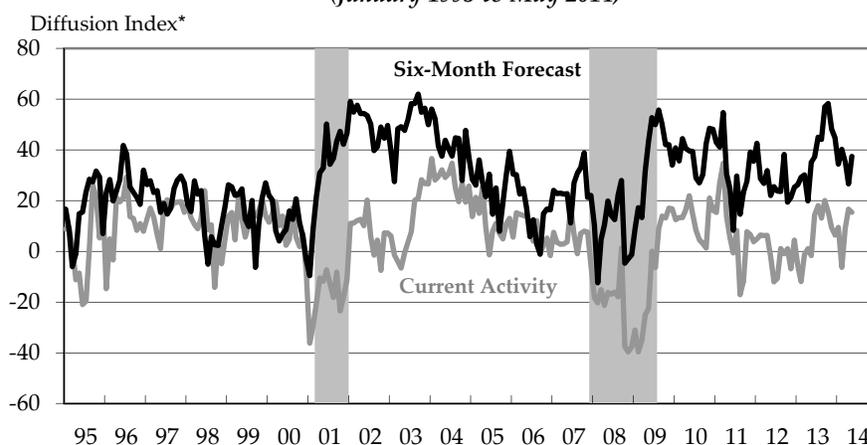
Indicators of Future Growth Improve

Most of the survey's broad indicators of future growth showed improvement this month. The future general activity index increased 11 points, nearing its reading in March (see Chart). The future indexes for new orders and shipments showed parallel improvement, increasing 7 points and 6 points, respectively. The future employ-

ment index rose 8 points. The percentage of firms expecting growth in employment increased from 27 percent in April to 31 percent this month.

In special questions this month, firms were asked about problems filling key positions with special labor skill requirements (see Special Questions). Firms were asked generally about worker shortages, any perceived mismatch between skill requirements and labor supply, and how they were dealing with such skills shortages. Nearly one-third of the firms reported labor shortages, while a higher percentage (46 percent) indicated a perceived skills mismatch. Nearly one-third also reported that they had positions that have remained vacant for more than 90 days. Fifty-three percent of the firms reported that the skills associated with most of their key job openings required some college/technical training; 33 percent indicated

Current and Future General Activity Indexes
(January 1995 to May 2014)



* Percentage of respondents indicating an increase minus percentage indicating a decrease.

that the key positions required only high school diplomas; and only 8 percent indicated that a college degree was required.

Firms were also asked to characterize the actions taken to deal with any perceived labor skills shortages. Sixty-six percent indicated increased recruitment efforts, and 56 percent were providing additional training for existing staff. Thirty-four percent of the firms reported that they had increased wages to address the skills shortage. Only a small percentage of firms (4 percent) indicated that production decreases were associated with a skills shortage.

Summary

The May *Business Outlook Survey* suggests that activity in the region's manufacturing sector continued to expand. Firms reported continued increases in overall activity, new orders, shipments, and employment this month. Firms reported more widespread price pressures. The survey's future activity indexes indicate that firms expect continued growth and employment increases over the next six months.

Special Questions (May 2014)

1.) *Has your firm experienced any significant labor shortages or mismatch between labor skill requirements and labor supply?*

	Yes	No	NR
Labor shortages	32.9%	62.8%	4.3%
Skills mismatch	45.7%	50.0%	4.3%
Job vacancies remaining more than three months	32.8%	58.6%	8.6%

2.) *What skill requirements are associated with the majority of your key job openings?*

College+	7.6%		
Some college/technical school	53.0%		
High school only	33.3%		
Less than high school	6.1%		

3.) *What actions has your firm taken to address skills shortages? (check as many actions as apply)**

Increase recruitment efforts	65.7%		
Provide additional training to existing staff	55.7%		
Partner with educational institution to align curriculum with talent needs	38.6%		
Increase wages	34.3%		
Expand recruitment outside region	25.7%		
Increase recruitment incentives	17.1%		
Increase benefits	7.1%		
Decrease production	4.3%		
Other	4.3%		

*Percentage will not add to 100 percent because more than one action could be selected.

BUSINESS OUTLOOK SURVEY May 2014	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?	16.6	33.7	45.9	18.3	15.4	26.6	52.4	23.2	15.0	37.4
Company Business Indicators										
New Orders	14.8	34.8	40.9	24.3	10.5	29.7	50.3	32.5	13.8	36.5
Shipments	22.7	32.5	49.2	18.3	14.2	32.8	51.3	31.7	12.6	38.7
Unfilled Orders	2.0	18.3	59.3	20.9	-2.5	1.5	25.1	62.8	8.1	17.0
Delivery Times	-14.3	7.6	78.4	11.8	-4.2	5.7	15.2	67.7	12.1	3.1
Inventories	-1.5	20.9	57.8	21.4	-0.5	4.8	26.1	59.0	10.4	15.7
Prices Paid	11.3	24.7	71.3	1.7	23.0	35.1	36.5	59.0	0.4	36.1
Prices Received	4.3	18.0	78.6	1.1	17.0	13.0	33.1	59.6	3.6	29.5
Number of Employees	6.9	19.0	67.7	11.2	7.8	15.9	30.5	55.7	6.5	24.1
Average Employee Workweek	5.0	17.8	65.1	14.9	2.9	-0.5	23.0	54.9	14.2	8.9
Capital Expenditures	--	--	--	--	--	26.0	32.5	53.4	8.1	24.4

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 May 13, 2014.