

Firms responding to the *Manufacturing Business Outlook Survey* indicated that the pace of regional manufacturing activity remained positive but decreased in December. The survey's current indicators for general activity, new orders, shipments, and employment suggest growth; however, their values for this month were significantly lower than last month's. The survey's indicators of future activity show optimism about continued growth over the next six months but declined slightly from last month's readings.

Indicators Suggest Reduced Activity

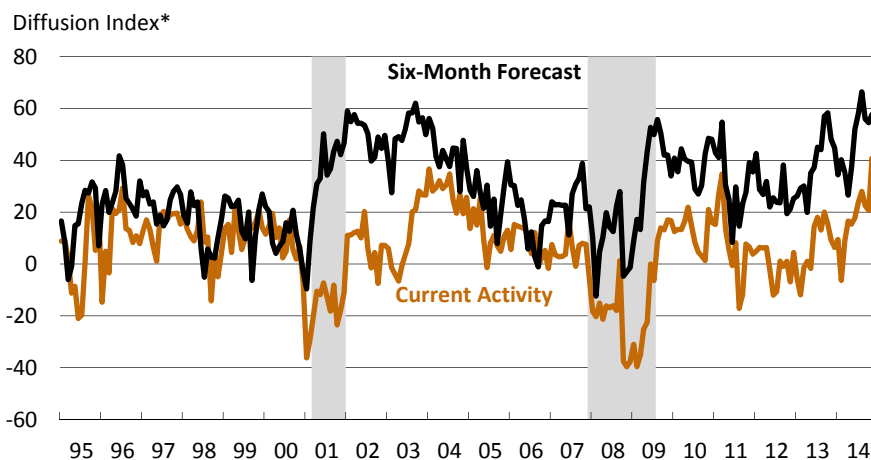
The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased 16 points, from a reading of 40.8 in November to 24.5 this month (see Chart 1). The new orders and current shipments indexes also weakened significantly. The demand for manufactured goods, as measured by the current new orders index, decreased 20 points, from a reading of 35.7 last month to 15.7 this month. Shipments also fell, with its index falling 16 points to 16.1. Despite these declines from November, all the broad current activity indexes show a positive trend over the course of the current year.

Firms' responses suggest deterioration in the labor market compared with November (see Chart 2). The current employment index fell 15 points, as the percentage of firms reporting an increase in employees fell from 29 percent in November to 17 percent in December. The percentage of firms reporting a longer workweek was greater than the percentage reporting a shorter workweek (20 percent versus 14 percent). Nonetheless, the workweek index fell almost 2 points, to 6.2.

Firms Report Modest Price Increases

Input price pressures were reported to be slightly lower than last month's: The prices paid index fell 3 points to 14.0 in December. Most firms reported that input prices were unchanged. With respect to prices received for manufactured goods, about 18 percent of the firms reported higher prices in December, and the index rose 1 point, to 12.5.

Chart 1. Current and Future General Activity Indexes
(January 1995 to December 2014)



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

Future Indicators Weaken but Still Reflect Expected Growth

The diffusion index for future activity edged down 6 points, to 51.9, in December (see Chart 1). The future indexes for new orders and shipments both fell 3 points, but a majority of the firms continue to expect increased orders and shipments over the next six months. Firms also pulled back their expectations about employment growth. More than 51 percent of the firms are expecting no change in their employment levels over the next six months, compared with 41 percent last month. While the future employment index decreased, from 31.5 in November to 21.7 in December, the future workweek index rose about 8 points, to 18.3.

Input and Labor Cost Expectations

In this month's special questions, firms were asked about their expectations for changes in various input and labor costs for the coming year (see Special Questions, page 3). The responses indicate that the largest average-annual increase is expected to be for health benefits (8.2 percent), which is similar to responses to the same questions in recent prior years. Wages and nonhealth benefits are expected to rise only 2.3 percent and 1.3 percent, respectively. Firms were also asked how the expected cost increases will compare with 2014 costs. For most categories, a majority of the firms reported that their costs

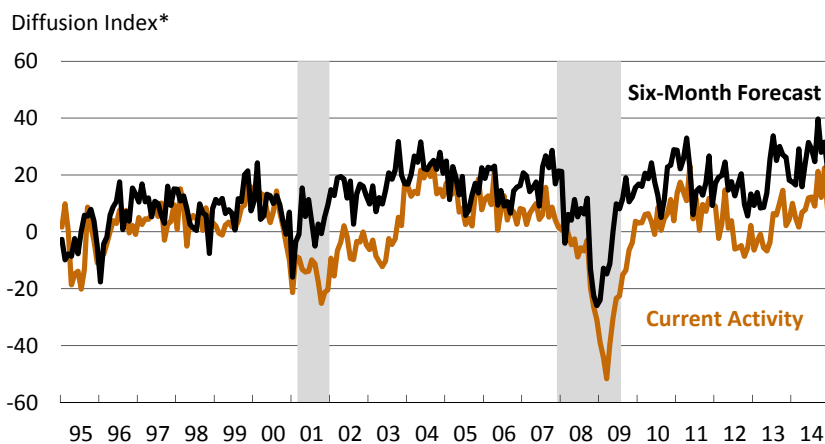


would remain the same. One exception was the health benefits category, with 67 percent expecting higher costs. The share of firms indicating that their energy costs would be lower in 2014 was 48 percent, while the share that expected their energy costs to be the same was 32 percent.

Summary

The December *Manufacturing Business Outlook Survey* suggests a slower pace of expansion of the region's manufacturing sector but general optimism about the future. Firms were less optimistic about employment increases over the next six months, however, and concerns about rising health-care costs continue to be reported. ■

Chart 2. Current and Future Number of Employees Indexes
(January 1995 to December 2014)



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

Released: December 18, 2014, 10:00 a.m. ET.

The January 2015 *Manufacturing Business Outlook Survey* will be released on January 15, 2015, at 10:00 a.m. ET. The survey's annual historical revisions, which incorporate new seasonal adjustment factors, will be released on Thursday, January 8, 2015, at 10:00 a.m. ET.

MANUFACTURING BUSINESS OUTLOOK SURVEY December 2014	December vs. November					Six Months from Now vs. December				
	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?	40.8	38.7	44.1	14.3	24.5	57.7	60.1	27.3	8.2	51.9
Company Business Indicators										
New Orders	35.7	35.4	43.7	19.7	15.7	48.8	58.1	26.4	12.4	45.7
Shipments	31.9	37.5	41.0	21.4	16.1	50.7	62.3	22.1	14.6	47.6
Unfilled Orders	7.1	18.3	62.2	16.9	1.5	18.5	28.8	55.6	12.3	16.5
Delivery Times	5.8	10.9	76.2	12.1	-1.2	6.9	14.5	74.7	10.6	3.9
Inventories	10.0	28.6	50.4	18.2	10.4	13.7	27.2	56.2	16.6	10.6
Prices Paid	17.3	23.0	65.4	9.0	14.0	35.5	30.0	58.2	6.5	23.5
Prices Received	11.5	17.8	76.4	5.2	12.5	20.4	29.1	68.9	1.9	27.2
Number of Employees	22.4	16.9	72.3	9.7	7.2	31.5	32.2	51.1	10.5	21.7
Average Employee Workweek	7.8	20.1	62.8	13.8	6.2	10.6	27.1	62.5	8.8	18.3
Capital Expenditures	--	--	--	--	--	23.0	29.1	58.1	7.4	21.7

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 December 16, 2014.

Special Questions (December 2014)

1. What percentage change in costs do you expect for the following categories in 2015?

	Energy	Other Raw Materials	Intermediate Goods	Wages	Health Benefits	Nonhealth Benefits
Decline of more than 4%	13.4%	1.5%	0.0%	0.0%	1.5%	1.5%
Decline of 3–4%	6.0%	0.0%	0.0%	0.0%	1.5%	3.0%
Decline of 2–3%	19.4%	6.0%	0.0%	2.9%	0.0%	1.5%
Decline of 1–2%	9.0%	7.5%	3.2%	0.0%	0.0%	1.5%
No Change	23.9%	20.9%	33.3%	13.2%	6.0%	34.3%
Increase of 1–2%	7.5%	14.9%	17.5%	8.8%	0.0%	22.4%
Increase of 2–3%	9.0%	29.9%	27.0%	48.5%	9.0%	17.9%
Increase of 3–4%	6.0%	9.0%	11.1%	22.1%	7.5%	4.5%
Increase of 4–5%	3.0%	6.0%	4.8%	2.9%	13.4%	13.4%
Increase of 5–7.5%	0.0%	3.0%	1.6%	1.5%	14.9%	0.0%
Increase of 7.5–10%	1.5%	1.5%	1.6%	0.0%	7.5%	0.0%
Increase of 10–12.5%	0.0%	0.0%	0.0%	0.0%	13.4%	0.0%
Increase of 12.5–15%	0.0%	0.0%	0.0%	0.0%	13.4%	0.0%
Increase of more than 15%	1.5%	0.0%	0.0%	0.0%	11.9%	0.0%
Avg. Expected Change (%)	-0.4	1.5	1.7	2.3	8.2	1.3

2. How do these expected costs compare with those in 2014?

	Energy	Other Raw Materials	Intermediate Goods	Wages	Health Benefits	Nonhealth Benefits
Higher	19.4%	33.3%	31.1%	50.8%	66.7%	31.0%
Same	32.3%	55.6%	65.6%	42.9%	27.0%	65.5%
Lower	48.4%	11.1%	3.3%	6.3%	6.3%	3.4%

