

December 2015

Manufacturing conditions in the region weakened this month, according to firms responding to the December *Manufacturing Business Outlook Survey*. The indicator for general activity, which was slightly positive last month, fell into negative territory. The indexes for new orders and shipments were mixed. Firms reported slight increases in overall employment this month and an increase in average work hours compared with November. Manufactured goods prices, as well as input prices, declined this month. Nearly all of the survey's future indicators showed notable weakening this month.

### Most Current Indicators Fall

The diffusion index for current activity returned to negative territory this month, decreasing from 1.9 to -5.9. This is the third negative reading in the past four months (see Chart 1). The index for current new orders remained negative and fell 6 points, to -9.5. However, firms reported higher shipments, as the current shipments index increased 6 points to a reading of 3.7. Firms reported a decline in unfilled orders, with the index falling from 2.4 to -17.7. The current inventories index increased 9 points to its first positive reading in four months.

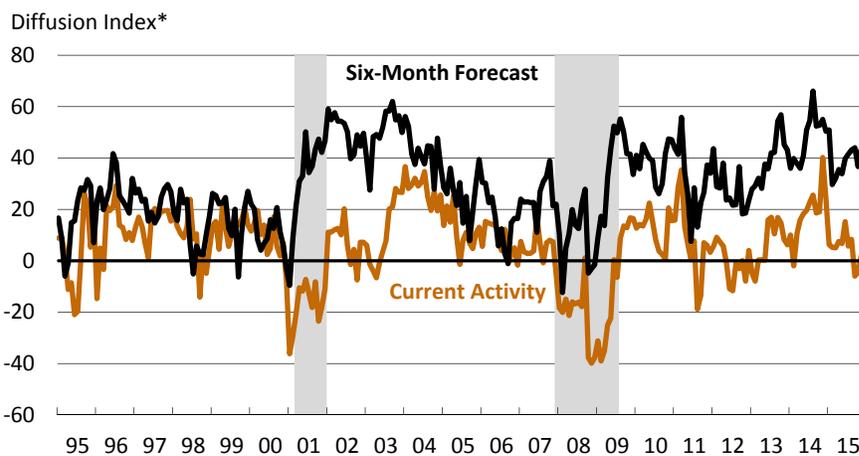
The survey's indicators for labor market conditions were slightly improved this month. The percentage of firms reporting increases in employment (16 percent) was slightly greater than the percentage reporting decreases (11 percent). The employment index increased 2 points, from 2.6 to 4.1. Firms also reported an increase in average work hours in December. The workweek index registered its first positive reading in three months, increasing 22 points to 5.5.

### Manufactured Goods Prices Decline

The surveyed firms reported lower prices for their own manufactured goods this month. Although most firms (69 percent) reported no changes in their prices received, the percentage of firms reporting lower prices (18 percent) was greater than the percentage reporting higher prices (10

**Chart 1. Current and Future General Activity Indexes**

(January 1995 to December 2015)



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

percent). The current prices received index fell from -0.4 in November to -8.7 this month (see Chart 2). Firms reported, on balance, declines in the prices paid for inputs. The percentage of firms reporting lower input prices (18 percent) was greater than the percentage of firms reporting higher input prices (8 percent). The prices paid index remained negative for the third consecutive month and decreased 5 points.

### Future Indexes Decline

The diffusion index for future general activity fell from a reading of 43.4 in November to 23.0 this month. This is the lowest reading for the index since November 2012 (see Chart 1). The percentage of firms expecting increases over the next

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The January 2016 *Manufacturing Business Outlook Survey* will be released on January 21, 2016, at 8:30 a.m. ET.

The survey's annual historical revisions, which incorporate new seasonal adjustment factors, will be released on Thursday, January 14, 2016, at 8:30 a.m. ET.

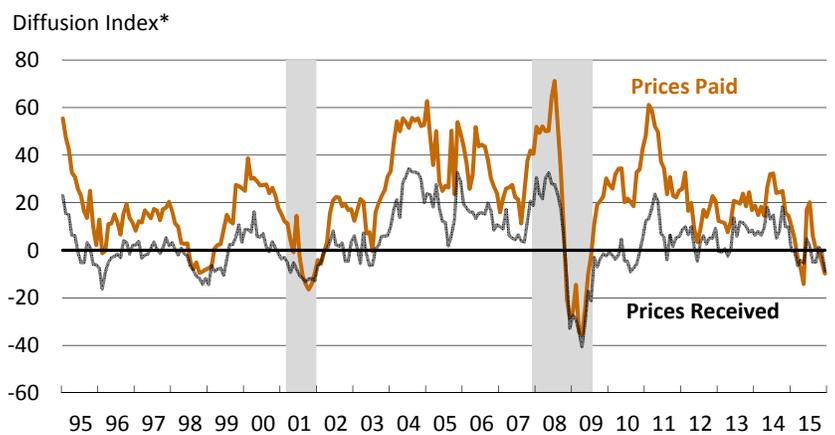


six months fell from 50 percent in November to 35 percent this month. Only 12 percent of the firms, however, expect declines in activity over the next six months. Future indexes for new orders and shipments also declined this month, decreasing 17 points and 8 points, respectively. In addition, firms marked down their forecasts for employment increases. The future employment diffusion index decreased 23 points to its lowest reading in three years. Only 13 percent of the firms expect increases in employment over the next six months, down from 33 percent in November.

### 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 percent). Both wages and nonhealth benefits are expected to rise about 2 percent. Firms were also asked how the expected cost increases for 2016 will compare with this year's 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 68 percent expecting higher costs.

**Chart 2. Current Prices Paid and Prices Received Indexes**  
(January 1995 to December 2015)



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

### Summary

Overall, manufacturing conditions in the region were weaker this month, according to firms responding to the December survey. The survey's broad indicators for general activity and new orders were negative. However, responding firms reported slight increases in shipments and employment this month. Firms reported declines in prices of manufactured goods and purchased inputs. Indicators for future conditions remained positive but fell significantly from their readings in November. ■

MANUFACTURING BUSINESS OUTLOOK SURVEY December 2015	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?	1.9	22.4	44.3	28.3	-5.9	43.4	35.3	47.2	12.2	23.0
Company Business Indicators										
New Orders	-3.7	22.4	41.0	31.9	-9.5	48.8	45.8	36.0	13.9	31.9
Shipments	-2.5	27.6	45.6	23.9	3.7	43.9	51.0	31.1	14.9	36.1
Unfilled Orders	2.4	8.3	59.7	26.0	-17.7	15.5	19.7	61.3	13.2	6.5
Delivery Times	0.5	8.4	71.5	14.5	-6.1	1.6	8.0	75.6	12.7	-4.8
Inventories	-7.9	19.1	54.1	17.7	1.4	1.2	20.0	58.9	20.8	-0.8
Prices Paid	-4.9	7.7	69.2	17.5	-9.8	20.7	26.0	65.4	5.7	20.3
Prices Received	-0.4	9.5	69.1	18.2	-8.7	10.6	21.1	69.4	6.9	14.2
Number of Employees	2.6	15.6	70.8	11.4	4.1	28.2	13.4	72.2	7.9	5.5
Average Employee Workweek	-16.2	15.8	68.4	10.3	5.5	16.6	8.9	77.3	10.7	-1.8
Capital Expenditures	--	--	--	--	--	25.9	25.9	56.9	15.0	10.9

**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 14, 2015.



**Special Questions (December 2015)\***

1. What percentage change in costs do you expect for the following categories in 2016?

	Energy (%)	Other Raw Materials (%)	Intermediate Goods (%)	Wages (%)	Health Benefits (%)	Nonhealth Benefits (%)	Wages & Health Benefits & Nonhealth Benefits (%)
Decline of more than 4%	9.4	10.8	3.1	0.0	0.0	0.0	0.0
Decline of 3–4%	10.9	0.0	0.0	0.0	0.0	0.0	0.0
Decline of 2–3%	9.4	1.5	1.6	0.0	0.0	0.0	0.0
Decline of 1–2%	18.8	7.7	0.0	1.5	0.0	4.8	1.6
No Change	32.8	35.4	46.9	9.2	7.7	25.8	3.2
Increase of 1–2%	9.4	20.0	23.4	23.1	3.1	24.2	6.5
Increase of 2–3%	3.1	13.8	21.9	49.2	10.8	27.4	17.7
Increase of 3–4%	1.6	7.7	3.1	15.4	1.5	9.7	24.2
Increase of 4–5%	1.6	0.0	0.0	1.5	15.4	3.2	24.2
Increase of 5–7.5%	0.0	0.0	0.0	0.0	15.4	3.2	6.5
Increase of 7.5–10%	1.6	1.5	0.0	0.0	21.5	0.0	4.8
Increase of 10–12.5%	1.6	1.5	0.0	0.0	7.7	0.0	3.2
Increase of 12.5–15%	0.0	0.0	0.0	0.0	6.2	1.6	4.8
Increase of more than 15%	0.0	0.0	0.0	0.0	10.8	0.0	3.2
<b>Median</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.5</b>	<b>6.3</b>	<b>1.5</b>	<b>3.5</b>
<b>Average</b>	<b>-0.7</b>	<b>0.6</b>	<b>0.8</b>	<b>2.2</b>	<b>7.5</b>	<b>1.9</b>	<b>4.8</b>

2. How do these expected costs compare with those in 2015?

<i>Higher</i>	16.9	13.8	14.0	44.8	68.4	22.8	64.9
<i>Same</i>	52.5	62.1	75.4	50.0	26.3	73.7	31.6
<i>Lower</i>	30.5	24.1	10.5	5.2	5.3	3.5	3.5

\* Percentages may not add to 100 percent because some reporters did not respond to the questions.

