

January 2016

Manufacturing conditions in the region contracted modestly this month, according to firms responding to the January *Manufacturing Business Outlook Survey*. The indicator for general activity remained negative this month; however, it rebounded from a lower reading in December. Other indicators offered mixed signals: Shipments increased this month, but new orders and employment declined modestly. The survey's price indexes suggest continued downward pressure on manufacturing prices. With respect to the manufacturers' forecasts, nearly all the survey's future indicators showed continued weakening this month while remaining positive.

Most Current Indicators Suggest Weak Activity

The diffusion index for current activity increased from a revised reading of -10.2 in December to -3.5 and has now been negative for five consecutive months (see Chart 1).* The index for current new orders remained negative but increased 10 points, to -1.4. Firms reported an increase in shipments to begin the new year: The shipments index increased 12 points, its first positive reading in four months. Firms reported continued declines in inventories: The inventories index remained negative and decreased 10 points. Firms' backlog of unfilled orders also declined this month, and delivery times were shorter, according to the responding firms.

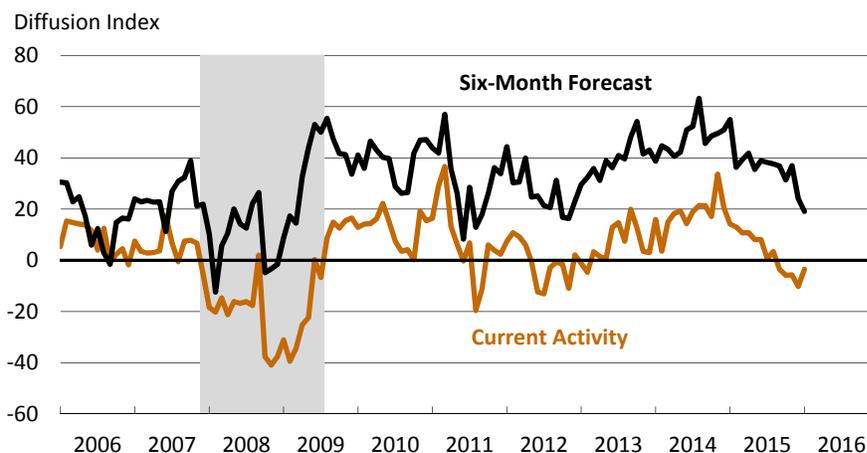
The survey's labor market indicators suggest weaker employment. The employment index decreased 4 points, from 2.2 to -1.9. Nearly 69 percent of the firms reported no change in employment this month, and the percentage reporting decreases (16 percent) was slightly larger than the percentage reporting increases (14 percent).

Firms Still Report Downward Price Pressures

Most firms (76 percent) reported no changes in the prices for their own manufactured products this month. The percentage of firms reporting lower prices (13 percent) was slightly greater than the percentage reporting higher prices (10 percent). Although the current prices received index increased from -8.5 to -2.8, the index has recorded seven consecutive negative readings (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

Chart 1. Current and Future General Activity Indexes

January 2006 to January 2016



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.

prices (17 percent). The prices paid index increased 7 points but remained negative for the fifth consecutive month.

Future Indexes Continue to Slide

The diffusion index for future general activity fell from a revised reading of 24.1 to 19.1 this month. The index has trended down since last summer and is now at its lowest reading since November 2012 (see Chart 1). The largest share of firms expects an increase in activity over the next six months (43 percent), but 24 percent expect declines. The future indexes for new orders and shipments also deteriorated this month, decreasing 13 points and 15 points, respectively. Firms' forecasts for future employment have been modest during the past few months. The future employment index

Released: January 21, 2016, 8:30 a.m. ET.

The February 2016 *Manufacturing Business Outlook Survey* will be released on February 18, 2016, at 8:30 a.m. ET.

* The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on January 14, 2016. The full set of revised historical data is available at <https://www.philadelphiafed.org/mbos-histrev2016>.



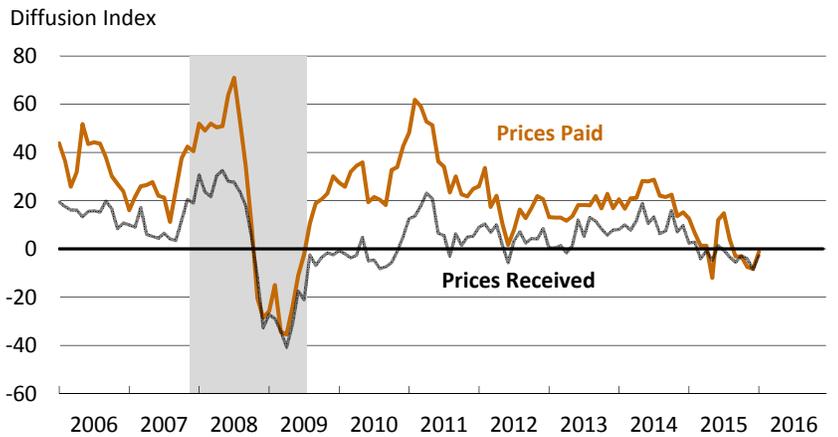
fell from 7.0 in December to 5.5 this month, the lowest reading since November 2012.

Energy Price Reductions Are Positive Overall

In this month's special questions, firms were asked about the effects of lower energy prices on manufacturing business (see Special Questions, page 3). The responses indicate that the net effects have been positive but that a large share of firms reported negative impacts from decreased demand from energy-producing customers. Nearly 51 percent of the firms reported overall positive effects from lower energy prices, while 30 percent reported negative effects. The largest percentage (33 percent) characterized the effect as slightly positive. Over 41 percent of the firms cited that falling energy prices had lowered the costs of production, but nearly the same percentage of firms (42 percent) said the lower prices had decreased demand from energy production-related customers. For 22 percent of the firms, energy cost reductions were increasing sales margins, but on the negative side, 22 percent indicated that the lower energy costs had reduced revenues. With regard to their own expectations for energy prices over the next six months, firms were evenly divided about whether their forecasts for energy prices would increase (32 percent) or decrease (30 percent) demand. About the same percent (30 percent) said demand would not be affected.

Chart 2. Current Prices Paid and Prices Received Indexes

January 2006 to January 2016



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

Weakness in regional manufacturing conditions continued this month, according to firms responding to the January survey. While indexes for current general activity and new orders remained negative, the indexes increased from lower readings at the end of last year. Firms reported an increase in shipments this month but a modest decrease in employment. Indicators for future conditions remained positive overall but suggested a continuing deterioration in confidence about manufacturing growth for the first half of 2016. ■

MANUFACTURING BUSINESS OUTLOOK SURVEY January 2016	January vs. December					Six Months from Now vs. January				
	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?	-10.2	26.7	37.5	30.2	-3.5	24.1	43.4	27.8	24.3	19.1
Company Business Indicators										
New Orders	-11.1	29.3	39.3	30.7	-1.4	34.5	40.9	36.0	19.8	21.1
Shipments	-2.1	35.6	37.0	25.9	9.6	36.6	42.9	32.5	20.9	22.0
Unfilled Orders	-17.6	15.9	58.5	24.7	-8.8	7.4	16.5	62.9	16.0	0.5
Delivery Times	-6.1	7.8	76.5	15.4	-7.6	-2.3	5.7	76.8	12.2	-6.5
Inventories	-5.7	17.9	45.3	33.6	-15.7	-1.7	23.4	49.8	21.9	1.5
Prices Paid	-8.3	16.6	64.5	17.7	-1.1	26.0	27.5	59.3	8.7	18.8
Prices Received	-8.5	10.3	76.0	13.1	-2.8	15.0	20.4	63.0	10.3	10.1
Number of Employees	2.2	13.7	68.6	15.7	-1.9	7.0	19.9	61.7	14.3	5.5
Average Employee Workweek	0.6	19.4	58.7	21.6	-2.2	0.2	17.7	62.3	15.6	2.1
Capital Expenditures	--	--	--	--	--	10.7	24.4	51.7	15.1	9.4

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 January 18, 2016.



MBOs SPECIAL QUESTIONS

January 2016

Special Questions (January 2016)		
1. Overall, what impacts have falling energy prices had on your business?		
	Percent of Respondents	Subtotals
Strongly positive	2.9%	Positive 50.7%
Modestly positive	14.5%	
Slightly positive	33.3%	
None	15.9%	Negative 30.4%
Slightly negative	11.6%	
Modestly negative	4.3%	
Strongly negative	14.5%	
Unsure	2.9%	
2. Impacts of changing energy prices manifest themselves in multiple ways. Falling energy prices have:*		
Decreased demand from our energy production–related customers	42.0%	
Increased demand from our nonenergy production–related customers	4.3%	
Lowered our firm’s cost of production	40.6%	
Lowered our firm’s revenues	21.7%	
Increased our sales margins	21.7%	
Decreased our sales margins	10.1%	
Had no effect	23.2%	
Other	1.4%	
3. Based on your assumptions about energy prices for the next six months, you expect overall demand for your products to:		
Decrease significantly	4.3%	Decrease 30.3%
Decrease modestly	15.9%	
Decrease slightly	10.1%	
Be unaffected	30.4%	Increase 31.9%
Increase slightly	20.3%	
Increase modestly	11.6%	
Increase significantly	0.0%	
Unsure	5.8%	
* Percentages do not add up to 100 percent because individual firms selected multiple responses.		

