

February 2016

Firms responding to the *Manufacturing Business Outlook Survey* reported continued weakness in business conditions this month. The indicator for general activity remained slightly negative this month, edging up only marginally from its reading in January. Other indicators offered mixed signals: The shipments index remained positive, but new orders and employment indexes remained negative and declined modestly. The survey's price indexes suggest that both input prices and selling prices fell this month. With respect to the manufacturers' forecasts, the survey's future indicators remained overall positive but showed continued weakening.

Current Indicators Suggest Continued Weak Activity

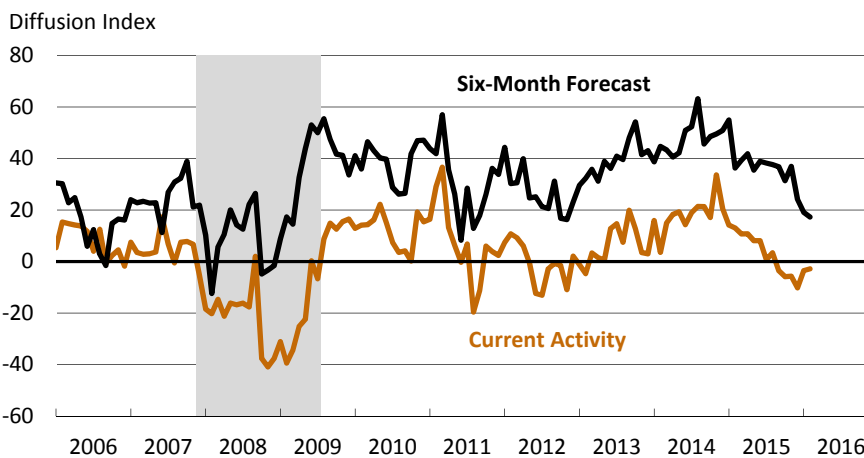
The diffusion index for current activity increased from a reading of -3.5 in January to -2.8 in February and has now been negative for six consecutive months (see Chart 1). The index for current new orders remained negative and edged down 4 points, to -5.3. Firms reported an increase in shipments; the shipments index remained positive for the second consecutive month but fell 7 points from January. Firms reported continued declines in inventories, and the inventories index remained negative. Firms' backlogs of unfilled orders were in decline again this month, and delivery times were shorter, according to the responding firms.

The survey's labor market indicators suggest continued weak employment conditions. The employment index decreased 3 points, from -1.9 to -5.0. About 63 percent of the firms reported no change in employment this month, and the percentage reporting decreases (20 percent) was slightly larger than the percentage reporting increases (15 percent).

Firms Still Report Downward Price Pressures

The indexes for both prices paid and prices received were negative. Most firms (66 percent) reported no changes in the prices for their own manufactured products this month. The percentage of firms reporting lower prices (18 percent) was slightly greater than the percentage reporting higher prices (14 percent). The current prices received index decreased from -2.8 to -4.5 and has recorded eight consecutive negative readings. Firms reported, on balance, declines in the prices paid for inputs. The percentage of firms reporting lower input prices (21 percent) was greater than the percentage of firms reporting higher input prices (19 percent). The

Chart 1. Current and Future General Activity Indexes
January 2006 to February 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 paid index decreased 1 point and remained negative for the sixth consecutive month.

Forecasts Overall Positive, but Confidence Wanes

The diffusion index for future general activity fell from a reading of 19.1 in January to 17.3 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 (42 percent), but 25 percent expect declines. The future indexes for new orders and shipments also edged down slightly this month. Firms' forecasts for future employment have been moderating the past few months. The future employment index fell from 5.5 to 2.3 this month, the third consecutive decline. The future workweek index also declined into negative territory for the first time in six months.

Firms Expect Their Own Price Increases to Remain Below the Rate of Inflation

In this month's special questions, firms were asked to forecast the changes in prices of their own products over the next four

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quarters. The median forecast was for an increase in their own prices of 1.3 percent, a rate of increase lower than the rate of inflation expected to be faced by the workers they employ regionally (2 percent) and lower than the rate of inflation expected for the average U.S. consumer (2 percent). Firms expect their own per employee compensation costs (wages plus benefits) to rise by 3 percent over the next four quarters. When asked about the average rate of inflation for consumers over the next 10 years, the firms' median forecast was 2.5 percent. With one exception, all the responses were identical to the results from November when the questions were last asked. In November, the median price forecast for firms' own prices was slightly lower, at 1 percent.

Summary

Weakness in the region's manufacturing sector continued this month, according to firms responding to the February survey. Indexes suggest continued modest declines in activity and new orders but a continued rise in shipments. Employment indicators suggest slight decreases in overall manufacturing employment this month. Indicators for future conditions remained positive overall but continued to trend downward. ■

| Special Questions (February 2016) | |
|---|-----------------|
| For the period 2016:Q1 to 2017:Q1, please list your expected annual percent change with respect to the following: | |
| | Percent Change* |
| 1. For your firm: | |
| Prices your firm will receive (for its own goods and services sold). | 1.3 |
| Compensation your firm will pay per employee (for wages and benefits). | 3.0 |
| 2. For your employees: | |
| Prices your employees will pay (for goods and services where they live). | 2.0 |
| 3. For U.S. consumers: | |
| Prices U.S. consumers will pay (for goods and services). | 2.0 |
| For the next 10 years (2016 through 2025), what is your expected annual average percent change with respect to the following: | |
| 4. For U.S. consumers: | |
| Prices U.S. consumers will pay (for goods and services). | 2.5 |
| *Numbers represent median forecasts. At least 81 percent of the firms responding to the survey also responded to the special questions. | |

| MANUFACTURING BUSINESS OUTLOOK SURVEY February 2016 | February vs. January | | | | | Six Months from Now vs. February | | | | |
|---|---|----------|--------------|----------|----------------------------|---|----------|--------------|----------|----------------------------|
| | <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? | -3.5 | 26.9 | 43.0 | 29.7 | -2.8 | 19.1 | 42.0 | 25.4 | 24.7 | 17.3 |
| Company Business Indicators | | | | | | | | | | |
| New Orders | -1.4 | 28.3 | 36.1 | 33.6 | -5.3 | 21.1 | 42.2 | 28.0 | 22.4 | 19.8 |
| Shipments | 9.6 | 29.1 | 40.2 | 26.5 | 2.5 | 22.0 | 43.8 | 25.9 | 23.6 | 20.2 |
| Unfilled Orders | -8.8 | 8.7 | 69.7 | 21.4 | -12.7 | 0.5 | 14.5 | 61.8 | 17.1 | -2.6 |
| Delivery Times | -7.6 | 4.8 | 72.5 | 20.9 | -16.1 | -6.5 | 5.9 | 71.4 | 16.1 | -10.3 |
| Inventories | -15.7 | 15.5 | 50.9 | 32.7 | -17.1 | 1.5 | 17.8 | 49.1 | 26.6 | -8.9 |
| Prices Paid | -1.1 | 18.6 | 60.6 | 20.8 | -2.2 | 18.8 | 23.5 | 57.2 | 11.7 | 11.9 |
| Prices Received | -2.8 | 13.5 | 66.1 | 18.1 | -4.5 | 10.1 | 18.1 | 59.6 | 15.9 | 2.1 |
| Number of Employees | -1.9 | 14.6 | 63.1 | 19.7 | -5.0 | 5.5 | 25.9 | 43.5 | 23.5 | 2.3 |
| Average Employee Workweek | -2.2 | 13.2 | 60.7 | 26.1 | -12.9 | 2.1 | 7.4 | 64.3 | 19.9 | -12.5 |
| Capital Expenditures | -- | -- | -- | -- | -- | 9.4 | 20.3 | 52.2 | 17.9 | 2.5 |
| 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 February 15, 2016. | | | | | | | | | | |

