

March 2016

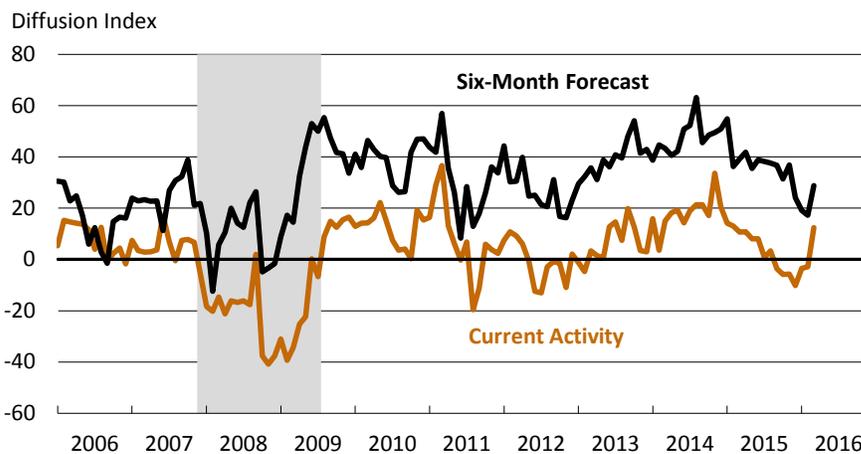
Firms responding to the *Manufacturing Business Outlook Survey* reported an improvement in business conditions this month. The indicator for general activity rose sharply in March to its first positive reading in seven months. Other broad indicators offered similar signals of growth: The indexes for shipments and new orders also rose notably. Firms continued to report overall weak employment. With respect to the manufacturers' forecasts, the survey's future indicators also showed significant improvement this month.

Current Indicators Reflect a Pickup in Activity

The diffusion index for current activity increased from a reading of -2.8 in February to 12.4 this month, its first positive reading in seven months (see Chart 1). Both the current new orders and shipments indexes also showed improvement this month. The current new orders index returned to positive territory, increasing 21 points to 15.7. Nearly 37 percent of the firms reported an increase in new orders this month. The current shipments index rose 20 points, to 22.1. The unfilled orders and delivery time indexes showed notable improvement, increasing 11 points and 16 points, respectively. While the unfilled orders remained slightly negative, the delivery time index reached its first positive reading in 11 months. Firms continued to report overall declines in inventories.

The survey's indicators of employment improved but suggest continued weakness. The employment index increased 4 points but remained slightly negative at -1.1. About 67 percent of the firms reported no change in employment this month, and the percentage reporting decreases (17 percent) was slightly larger than the percentage reporting increases (16 percent). Firms reported a slight rise in average work hours: The workweek index increased 19 points and was at its first positive reading in three months.

Chart 1. Current and Future General Activity Indexes
January 2006 to March 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.

Output Prices Rise Slightly

Prices received for manufactured goods, on balance, rose slightly this month. The prices received index increased 8 points, to 3.5, its first positive reading in nine months (see Chart 2). But the largest share of firms (81 percent) reported no change in prices this month. Input price pressures remain subdued. The prices paid index, at -0.9, has remained negative for seven consecutive months.

Outlook Improved This Month

The diffusion index for future general activity increased from a reading of 17.3 in February to 28.8 this month. This is the highest reading for the index in four months (see Chart 1). The largest share of firms (41 percent) expects an increase in activity over the next six months, while 13 percent expect declines. The future indexes for new orders and shipments also moved higher this month, increasing 19 points and 14 points, respectively. The future employment

Released: March 17, 2016, 8:30 a.m. ET.

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

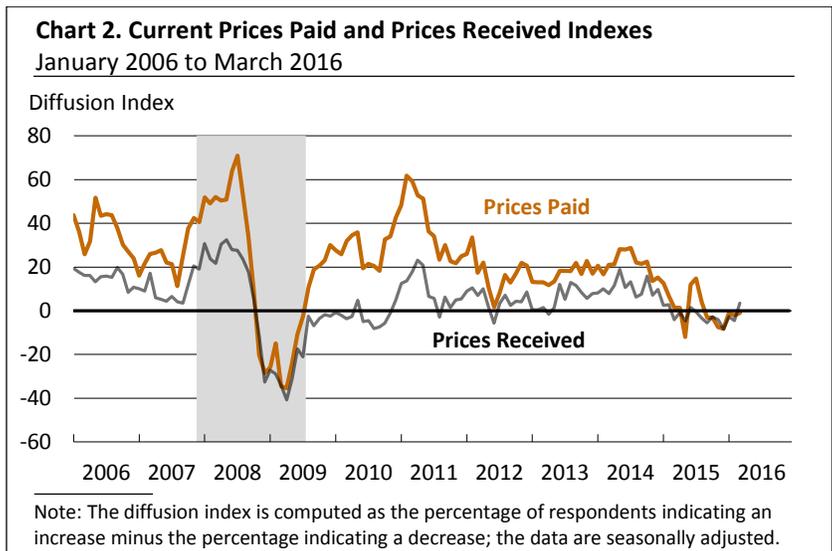


index increased more modestly, from 2.3 to 6.3. More than 22 percent of the surveyed firms expect to increase employment levels over the next six months. The indexes for future prices paid and received showed significant improvement this month, both increasing 13 points.

In this month's special questions (see page 3), firms were surveyed about their capital spending plans for 2016 compared with actual spending levels in 2015. More than 46 percent of the firms indicated that total capital spending would increase this year compared with 2015, while 31 percent indicated that spending would decrease. Expected high sales growth and the need to replace capital goods were the most cited reasons for the increase. Among the firms that do not plan to increase capital spending, the most cited reasons were low sales growth and low capacity utilization.

Summary

The *Manufacturing Business Outlook Survey* suggests a pickup in general activity in March. The survey's indicators for general activity, new orders, and shipments all improved notably from their readings in February. Firms reported that overall employment was steady. Indicators reflecting firms' expectations for the next six months improved this month. ■



MANUFACTURING BUSINESS OUTLOOK SURVEY March 2016	March vs. February					Six Months from Now vs. March				
	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?	-2.8	27.4	51.9	15.0	12.4	17.3	41.4	29.8	12.6	28.8
Company Business Indicators										
New Orders	-5.3	36.7	37.8	21.0	15.7	19.8	49.7	28.7	10.9	38.8
Shipments	2.5	37.5	47.2	15.3	22.1	20.2	47.1	27.4	13.0	34.2
Unfilled Orders	-12.7	13.6	68.9	15.5	-1.9	-2.6	22.2	57.6	9.8	12.4
Delivery Times	-16.1	11.0	78.3	10.7	0.3	-10.3	6.0	75.6	9.7	-3.7
Inventories	-17.1	17.2	51.2	29.9	-12.7	-8.9	13.0	49.8	27.0	-14.0
Prices Paid	-2.2	13.7	71.7	14.6	-0.9	11.9	27.9	57.8	3.2	24.7
Prices Received	-4.5	11.3	80.9	7.8	3.5	2.1	21.6	63.3	6.5	15.1
Number of Employees	-5.0	15.5	66.5	16.6	-1.1	2.3	22.2	52.1	15.9	6.3
Average Employee Workweek	-12.9	14.7	75.4	9.0	5.7	-12.5	16.4	64.6	7.2	9.2
Capital Expenditures	--	--	--	--	--	2.5	25.3	54.5	12.0	13.3

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 March 14, 2016.



Special Questions (March 2016)				
1. In 2016, do you expect the following capital expenditure categories to be lower than, the same, or higher than last year?				
	Lower (%)	Same (%)	Higher (%)	Diffusion Index
Noncomputer equipment	23.4	40.6	35.9	12.5
Software	23.0	52.5	24.6	1.6
Computers and related hardware	20.6	61.9	17.5	-3.2
Structures	32.3	40.3	27.4	-4.8
Energy-saving investments	21.3	62.3	16.4	-4.9
Total Capital Spending	30.8	23.1	46.2	15.4
2. If your firm plans to increase total capital spending, what are the major factors behind your decision?*				
	Percent			
Expected growth of sales is high	40.0			
Need to replace other capital goods	36.7			
Capacity utilization is currently high	23.3			
Need to replace information technology equipment	23.3			
Firm's cash flow or balance-sheet position has improved	20.0			
Need to replace equipment that consumes too much energy	13.3			
Cost or availability of external finance has improved	6.7			
3. If your firm does not plan to increase total capital spending, what are the major factors behind your decision?*				
	Percent			
Expected growth of sales is low	57.9			
Capacity utilization is currently low	31.6			
Limited need to replace information technology equipment	21.1			
Cost or availability of external finance has deteriorated	15.8			
Firm's cash flow or balance-sheet position has deteriorated	10.5			
Limited need to replace other capital goods	5.3			
* The sum of percentages may be greater than 100 due to firms indicating more than one factor if applicable.				

