

Firms responding to the *Manufacturing Business Outlook Survey* suggest that growth was positive but tenuous this month. The diffusion index for current general activity moved from a negative reading to a marginally positive reading, while the indicators for new orders and employment suggested continued general weakness in business conditions. Of the current broad indicators, the diffusion index for shipments recorded the strongest reading. The respondents were confident about future growth, as their forecasts of future activity showed notable improvement.

### Current Indicators Remain Weak

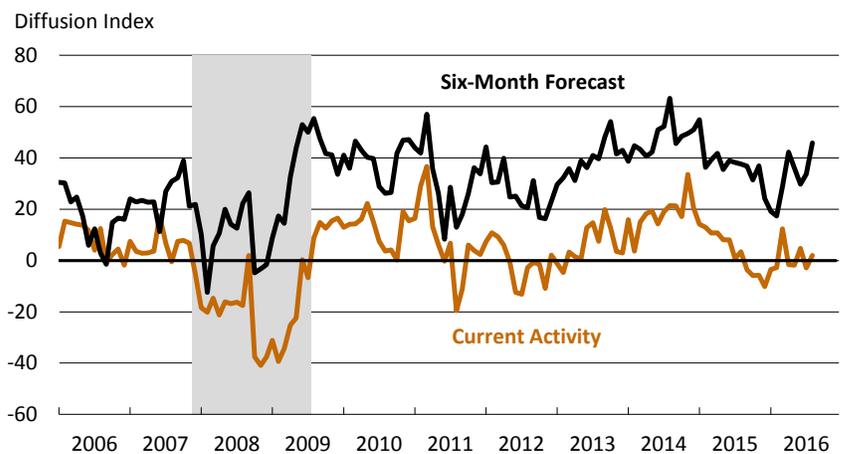
The index for current manufacturing activity in the region rose 5 points to only 2.0 in August, as the share of firms reporting an increase in activity (35 percent) barely exceeded the share reporting a decrease (33 percent). This is only the third positive reading of the index in the current year (see Chart).

The current new orders index dropped significantly from a reading of 11.8 in July to -7.2 in August. The percentage of firms reporting an increase in new orders (27 percent) was less than 1 point lower than last month; however, the percentage of firms reporting a decrease (34 percent) was 18 points higher than last month. The current shipments index rose slightly, from 6.3 to 8.4. The percentage of firms reporting an increase in shipments (35 percent) was 6 points higher than last month. The indexes for unfilled orders and delivery times fell into negative territory, recording values of -15.0 and -3.8, respectively. The index for inventories dropped from -4.3 to -9.2. The indicators for unfilled orders, delivery times, and inventories have been negative for most of this year.

The survey's indicators of employment weakened considerably. The employment index fell 18 points to -20.0, which is its largest negative reading for the current year. Although 67 percent of the firms reported no change in employment this month, the percentage reporting decreases (25 percent) significantly exceeded the percentage reporting increases (5 percent). The workweek index also fell, from -3.6 to -11.5. Twenty-five percent of the firms reported a decrease in average work hours, and only 13 percent reported an increase.

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

January 2006 to August 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.

### Price Inflation Rises

Firms indicated that there was a broadening of price increases both for inputs and for their own goods. The prices paid index rose 10 points, to 19.7, in August. Twenty percent of the respondents reported increases in prices paid, and none reported decreases. The prices received index rose 7 points, to 7.1. Eighteen percent of the respondents indicated increases in prices received, while 11 percent reported decreases.

### Respondents See Growth Ahead

The survey's index of future manufacturing activity rose 12 points to 45.8 in August, strongly indicating that the current weakness is expected to be temporary. This index is at its highest reading since January 2015 (see Chart). Fifty-four percent of the firms expect an increase in activity over the next six months, up from 46 percent last month. Only 8 percent expect a decline, down from 12 percent last month. The future indexes for new orders and shipments also increased, rising 16 points and 24 points, respectively. The future employment index held relatively steady at 12.9.

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The September 2016 *Manufacturing Business Outlook Survey* will be released on September 15, 2016, at 8:30 a.m. ET.



## Firms Expect Own Price Increases to Lag General Inflation

In this month's special questions, firms were asked to forecast the changes in the prices of their own products and general inflation over the next four quarters. The median forecast was for an increase in their own prices of 1 percent. Firms expect their employee compensation costs (wages plus benefits on a per employee basis) to rise at a much higher pace of 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. These median responses were identical to those from May when the same questions were last asked, with one exception: In May, the median price forecast for firms' own prices was higher, at 2 percent.

### Summary

The August *Manufacturing Business Outlook Survey* indicated, on balance, that growth in the region's manufacturing sector is currently weak. The survey's indicators for current general activity and shipments were positive, while the indicators for new orders and employment were negative. The indicators for future conditions rose sharply from last month's readings, however. ■

Special Questions (August 2016)	
Over the next year (2016:Q3 to 2017:Q3), please list your expected annual percent change with respect to the following:	
	Percent Change*
<b>1. For your firm:</b>	
Prices your firm will receive (for its own goods and services sold).	1.0
Compensation your firm will pay per employee (for wages and benefits).	3.0
<b>2. For your employees:</b>	
Prices your employees will pay (for goods and services where they live).	2.0
<b>3. For U.S. consumers:</b>	
Prices U.S. consumers will pay (for goods and services).	2.0
<b>For the next 10 years (2016 through 2025), what is your expected annual average percent change with respect to the following:</b>	
<b>4. For U.S. consumers:</b>	
Prices U.S. consumers will pay (for goods and services).	2.5
* Numbers represent median forecasts.	

MANUFACTURING BUSINESS OUTLOOK SURVEY August 2016	August vs. July					Six Months from Now vs. August				
	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?	-2.9	35.0	32.0	33.0	2.0	33.7	53.9	28.9	8.1	45.8
Company Business Indicators										
New Orders	11.8	27.0	38.6	34.2	-7.2	29.2	56.2	28.3	11.3	44.9
Shipments	6.3	35.1	34.6	26.7	8.4	27.2	60.0	30.3	9.0	51.0
Unfilled Orders	1.9	12.4	54.6	27.4	-15.0	12.1	17.1	64.6	13.9	3.2
Delivery Times	1.3	12.3	67.1	16.0	-3.8	0.5	11.1	73.4	13.3	-2.2
Inventories	-4.3	18.7	50.4	27.8	-9.2	0.3	19.2	52.2	26.6	-7.3
Prices Paid	9.9	19.7	79.0	0.0	19.7	26.4	32.0	62.4	2.8	29.1
Prices Received	0.3	17.9	71.1	10.8	7.1	24.1	24.7	63.1	10.8	13.9
Number of Employees	-1.6	5.0	67.4	25.0	-20.0	12.8	26.7	57.7	13.8	12.9
Average Employee Workweek	-3.6	13.4	60.6	25.0	-11.5	8.4	25.2	69.1	5.3	19.9
Capital Expenditures	--	--	--	--	--	15.1	27.1	58.7	7.9	19.2
<b>NOTES:</b>										
(1) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.										
(2) All data are seasonally adjusted.										
(3) Percentages may not sum to 100 percent because of rounding, omission by respondents, or both.										
(4) Survey results reflect data received through August 15, 2016.										

