

August 2017

Manufacturing conditions in the region continued to advance in August, according to firms responding to this month's *Manufacturing Business Outlook Survey*. The diffusion index for general activity fell slightly but continued to reflect growth. There was a notable improvement in the new orders and shipments indexes, and overall employment expansion continued among the reporting firms. The survey's indexes of future activity indicate that firms expect a continuation of growth in the region's manufacturing sector over the next six months.

Current Indicators All Remain Positive

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, fell slightly from 19.5 in July to 18.9 in August. The index has been positive for 13 consecutive months (see Chart). Despite the fallback in the general activity index, the demand for manufactured goods, as measured by the survey's current new orders index, showed notable improvement: The diffusion index increased from 2.1 to 20.4. Firms reported that shipments also continued to rise. The current shipments index increased 17 points to 29.4.

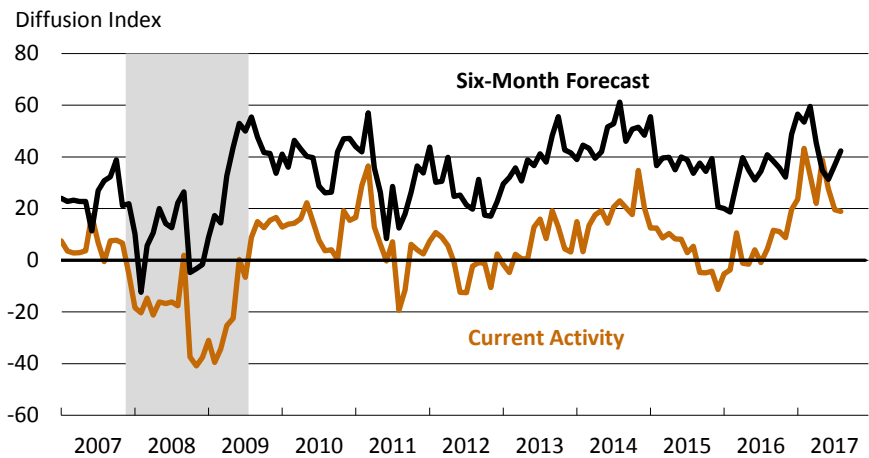
The survey's indicators for labor market conditions suggest modest growth in employment. The percentage of firms reporting increases in employment (15 percent) was greater than the percentage reporting decreases (5 percent). The employment index held near steady at 10.1. Firms also reported overall increases in average work hours in August, and the workweek index was positive for the 10th consecutive month.

Price Indexes Suggest Modest Price Pressures

The survey's price indicators suggest moderate price pressures this month: Both the prices paid and prices received indexes remained positive and increased modestly from their July readings. With regard to prices paid for inputs, 24 percent of the respondents reported higher input prices, the same as last month. The current prices paid index edged 2 points higher after declining for the previous four months. The prices received index increased 5 points, with 16 percent of the firms reporting higher prices and 3 percent reporting lower prices.

Current and Future General Activity Indexes

January 2007 to August 2017



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.

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

In this month's special questions, firms were asked to forecast the changes in the prices of their own products and for U.S. consumers over the next four quarters (see Special Questions). Regarding their own prices, the firms' median forecast was for an increase of 2.0 percent, the same as when the question was last asked in May 2017. When asked about the rate of inflation for U.S. consumers over the next year, the firms' median forecast was 2.5 percent, an increase from the previous forecast of 2.2 percent in May. Firms expect their employee compensation costs (wages plus benefits on a per employee basis) to rise 3.0 percent over the next four quarters, the same as the previous forecast in May. Firms' forecast for the long-run (10-year average) inflation rate remained unchanged at 3.0 percent this quarter.

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The September 2017 *Manufacturing Business Outlook Survey* will be released on September 21, 2017, at 8:30 a.m. ET.



Six-Month Forecasts Show Improvement

The diffusion index for future general activity increased from a reading of 36.9 in July to 42.3 this month, its highest reading in four months (see Chart). Over the next six months, nearly 49 percent of the firms expect increases in activity, and only 7 percent expect decreases. The indexes for future new orders and shipments also increased from their July readings, by 10 points and 18 points, respectively. The future employment index increased 6 points, marking its highest reading in four months. Over 38 percent of the manufacturers said they expect to expand employment over the next six months, while only 5 percent expect to reduce employment. Although the future capital spending index fell 3 points, firms remain optimistic in their investment plans, with 42 percent of the firms expecting to increase capital spending over the next six months.

Summary

Responses to the August *Manufacturing Business Outlook Survey* suggest continued growth for the region's manufacturing sector, as all of the broad current indicators remained positive. Firms reported a notable expansion in new orders and shipments this month. The survey's future indexes indicate that respondents continue to expect growth over the next six months. ■

Special Questions (August 2017)		
Over the next year (2017:Q3 to 2018:Q3), please list your expected annual percent change with respect to the following:		
	Current Forecast*	Previous Forecast (May 2017)
1. For your firm:		
Prices your firm will receive (for its own goods and services sold).	2.0	2.0
Compensation your firm will pay per employee (for wages and benefits).	3.0	3.0
2. For your employees:		
Prices your employees will pay (for goods and services where they live).	2.4	2.0
3. For U.S. consumers:		
Prices U.S. consumers will pay (for goods and services).	2.5	2.2
For the next 10 years (2017 through 2026), 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).	3.0	3.0
* The numbers represent medians of the individual forecasts (as percent changes). The forecasts are over the next year for questions 1 to 3 and an annual average for the next 10 years for question 4.		

MANUFACTURING BUSINESS OUTLOOK SURVEY August 2017	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?	19.5	35.3	42.2	16.4	18.9	36.9	48.8	32.6	6.5	42.3
Company Business Indicators										
New Orders	2.1	39.2	40.6	18.7	20.4	39.4	52.2	32.4	3.1	49.1
Shipments	12.2	44.0	38.2	14.7	29.4	25.9	54.4	27.6	10.3	44.1
Unfilled Orders	7.2	22.3	63.8	7.9	14.5	11.4	23.8	57.7	6.8	16.9
Delivery Times	7.4	13.9	77.9	3.4	10.5	1.6	15.5	64.9	8.7	6.8
Inventories	0.7	17.6	56.2	23.7	-6.1	25.8	39.2	38.6	13.0	26.2
Prices Paid	19.1	23.6	71.5	2.6	21.1	46.6	41.2	40.0	6.4	34.8
Prices Received	9.0	16.3	79.4	2.8	13.5	29.7	43.0	45.5	2.6	40.4
Number of Employees	10.9	15.2	79.6	5.0	10.1	27.0	37.6	46.6	4.5	33.1
Average Employee Workweek	3.8	27.4	62.4	8.6	18.8	4.3	24.2	59.3	8.9	15.3
Capital Expenditures	--	--	--	--	--	42.0	42.4	43.5	3.2	39.2
NOTES:										
(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 14, 2017.										

