

Results from the *Manufacturing Business Outlook Survey* suggest that the region's manufacturing sector continues to expand in February. The indexes for general activity, new orders, and employment were all positive this month and increased from their readings last month. Price increases for inputs were more widespread this month, according to the respondents. The survey's future indexes, reflecting expectations for the next six months, suggest continued optimism.

Most Current Indicators Improved This Month

The index for current manufacturing activity increased 4 points in February to a reading of 25.8. The index has stayed within a relatively narrow range over the past nine months (see Chart 1). Nearly 41 percent of the firms indicated increases in activity this month, while 15 percent reported decreases. The demand for manufactured goods, as measured by the survey's current new orders index, showed notable improvement: The diffusion index increased 14 points, with 41 percent of the firms reporting an increase in new orders this month. The current shipments index remained positive but fell 15 points to 15.5. Both the unfilled orders and delivery times indexes were positive, suggesting an increase in unfilled orders and slower deliveries.

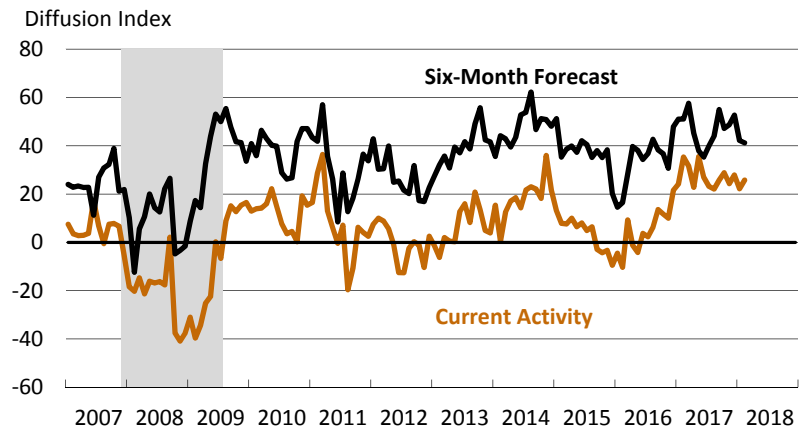
The survey's indicators for labor market conditions suggest a pickup in hiring this month. Over 30 percent of the firms reported increases in employment this month, up from 24 percent in January. The employment index increased 8 points. The firms also reported overall higher average work hours in February, although the workweek index fell 3 points to 13.7.

Input Prices Increases Are More Widespread

Cost pressures were more widespread this month among the reporting manufacturers: The prices paid index increased 12 points to 45.0, its highest reading since May 2011 (see Chart 2). Forty-six percent of the firms reported higher input prices this month compared with 33 percent in January. With respect to prices received for manufactured goods, 25 percent of the firms reported higher prices, and

Chart 1. Current and Future General Activity Indexes

January 2007 to February 2018



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.

1 percent reported lower prices. The prices received index edged down 1 point to 23.9.

Firms' Expected Price Increases Edged Higher Along with Inflation Forecast

In this month's special questions, the 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 on page 3). Regarding their own prices, the firms' median forecast was for an increase of 3.0 percent, up from 2.0 percent when the same question was last asked in November 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 2.0 percent in November. The 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. The firms' forecast for the long-run (10-year average) inflation rate rose from 2.5 percent to 3.0 percent.

Released: February 15, 2018, 8:30 a.m. ET.
The March 2018 *Manufacturing Business Outlook Survey* will be released on March 15, 2018, at 8:30 a.m. ET.



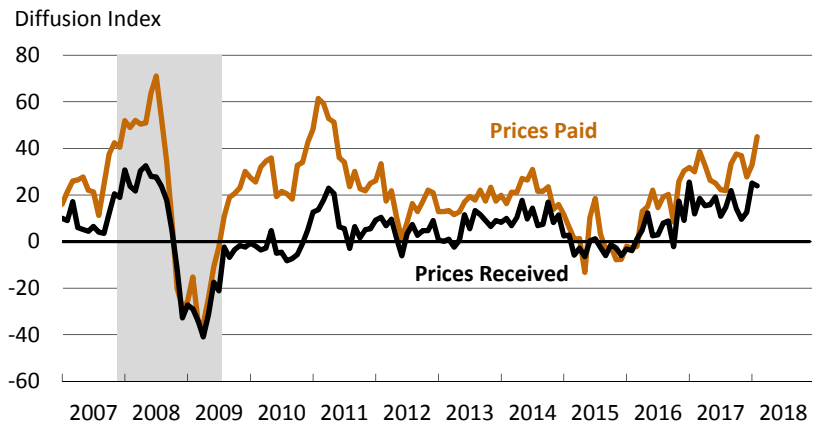
Firms Remain Optimistic

The survey's six-month indicators remained at high readings in February. The diffusion index for future general activity declined 1 point to 41.2 in February (see Chart 1). Over 55 percent of the manufacturers expect increases in activity over the next six months, while 14 percent expect declines. The indexes for future new orders and shipments improved: The future new orders index increased 3 points, while the future shipments index increased 2 points. The future employment diffusion index increased 6 points to 40.4. Forty-five percent of the firms expect to increase employment over the next six months. Over 44 percent of the responding firms expect to increase capital spending over the next six months, with the future capital spending index increasing 4 points in February, its highest reading since April 1984.

Summary

The February *Manufacturing Business Outlook Survey* indicates continued growth in regional manufacturing this month. The demand for manufactured goods, as reflected in new orders, showed improvement this month, and more firms added to their payrolls. The firms reported more widespread

Chart 2. Current Prices Paid and Prices Received Indexes
January 2007 to February 2018



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 increases for purchased inputs this month. In special questions this month, the firms' forecast for their own price changes for the next year edged higher compared with their forecast three months ago. The indicators reflecting the firms' overall expectations for manufacturing conditions over the next six months remained at high levels. The firms' expectations for future employment and capital spending showed notable improvement this month. ■

| MANUFACTURING BUSINESS OUTLOOK SURVEY February 2018 | February vs. January | | | | | Six Months from Now vs. February | | | | |
|---|--------------------------------|----------|--------------|----------|--------------------|----------------------------------|----------|--------------|----------|--------------------|
| | 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? | 22.2 | 40.7 | 42.8 | 14.9 | 25.8 | 42.2 | 55.4 | 26.5 | 14.2 | 41.2 |
| Company Business Indicators | | | | | | | | | | |
| New Orders | 10.1 | 41.4 | 41.7 | 16.9 | 24.5 | 46.2 | 62.1 | 24.8 | 13.0 | 49.1 |
| Shipments | 30.3 | 33.4 | 48.8 | 17.9 | 15.5 | 49.4 | 64.8 | 21.9 | 13.1 | 51.7 |
| Unfilled Orders | -1.8 | 25.8 | 62.9 | 11.3 | 14.5 | 8.2 | 31.0 | 56.4 | 12.2 | 18.8 |
| Delivery Times | 6.1 | 16.1 | 72.3 | 11.6 | 4.5 | 3.8 | 26.8 | 63.0 | 10.2 | 16.6 |
| Inventories | 9.4 | 18.5 | 59.7 | 19.4 | -0.9 | 12.8 | 40.3 | 45.1 | 12.8 | 27.5 |
| Prices Paid | 32.9 | 46.2 | 52.7 | 1.1 | 45.0 | 54.2 | 67.9 | 29.5 | 2.6 | 65.2 |
| Prices Received | 25.1 | 25.2 | 73.3 | 1.2 | 23.9 | 44.1 | 49.9 | 49.0 | 0.4 | 49.5 |
| Number of Employees | 16.8 | 30.3 | 63.9 | 5.1 | 25.2 | 34.9 | 44.8 | 47.8 | 4.3 | 40.4 |
| Average Employee Workweek | 16.7 | 24.4 | 64.9 | 10.7 | 13.7 | 10.6 | 25.9 | 60.0 | 11.2 | 14.7 |
| Capital Expenditures | -- | -- | -- | -- | -- | 36.2 | 44.4 | 47.6 | 4.0 | 40.4 |
| 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 February 12, 2018. | | | | | | | | | | |



| Special Questions (February 2018) | | |
|---|------------------|-----------------------------------|
| Over the next year (2018:Q1 to 2019:Q1), please list your expected annual percent change with respect to the following: | | |
| | Current Forecast | Previous Forecast (November 2017) |
| 1. For your firm: | | |
| Prices your firm will receive (for its own goods and services sold). | 3.0 | 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). | 2.5 | 2.0 |
| 3. For U.S. consumers: | | |
| Prices U.S. consumers will pay (for goods and services). | 2.5 | 2.0 |
| For the next 10 years (2018 through 2027), 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 | 2.5 |
| 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. | | |

