

June 2018

Results from the June *Manufacturing Business Outlook Survey* suggest continued expansion of the region's manufacturing sector. All the broad indicators remained positive, although the indicators for general activity and new orders fell notably. The firms continued to report higher prices for purchased inputs and their own manufactured goods. Expectations for the next six months continued to moderate but remain positive overall.

Current Indicators Suggest Continuing Growth

The diffusion index for current general activity remained positive but decreased 15 points this month (see Chart 1). Almost 37 percent of the manufacturers reported increases in overall activity this month, while 17 percent reported decreases. The new orders index fell nearly 23 points this month. While 38 percent of the firms reported an increase in orders, 20 percent reported declines. The current shipments index increased 3 points. The unfilled orders index suggested that firms' backlogs diminished: The index fell 18 points and registered its first negative reading (-2.7) since January. The delivery times index remained positive but fell 9 points to its lowest reading in four months.

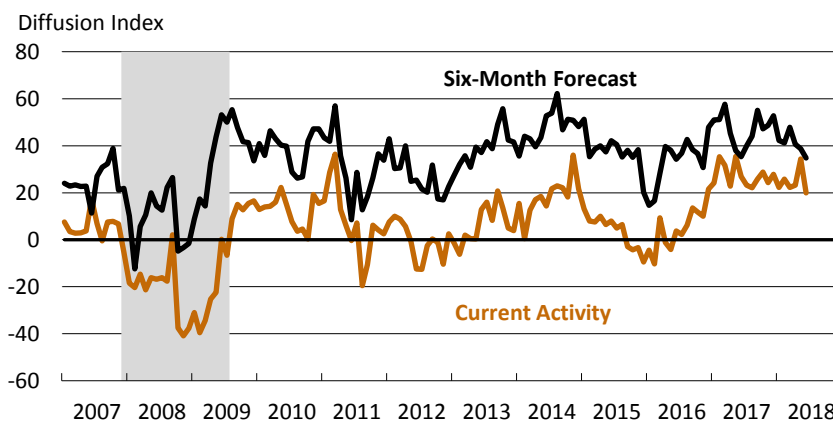
The firms continued to report overall increases in employment. Nearly 34 percent of the responding firms reported increases in employment this month, while 3 percent reported decreases. The current employment index, at 30.4, was virtually unchanged from May. The current average workweek index, however, decreased 10 points.

Price Increases Remain Widespread

The firms continued to report higher prices for both purchased inputs and their own manufactured goods, although the survey's price indicators fell modestly from their May readings. Price increases for purchased inputs were reported by 54 percent of the manufacturers this month, but the prices paid diffusion index edged 1 point lower (see Chart 2). The current prices received index, reflecting the manufacturers' own prices, decreased 3 points but remains at a high reading of 33.2. Nearly 34 percent of the firms reported higher prices for their manufactured goods.

Chart 1. Current and Future General Activity Indexes

January 2007 to June 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.

Six-Month Indicators Continue to Moderate

The diffusion index for future general activity decreased for the third consecutive month, falling from 38.7 in May to 34.8 this month (see Chart 1). Nearly 48 percent of the firms expect increases in activity over the next six months, while 13 percent expect declines. The future new orders index decreased 2 points, and the future shipments index decreased 10 points. Nearly 67 percent of the firms expect price increases for purchased inputs over the next six months. Fifty-seven percent expect higher prices for their own manufactured goods, up from 36 percent last month. The future employment index decreased 9 points to a reading of 34.1, with more than 38 percent of the firms expecting to add workers over the next six months.

Released: June 21, 2018, 8:30 a.m. ET.

The July 2018 *Manufacturing Business Outlook Survey* will be released on July 19, 2018, at 8:30 a.m. ET.

The *Manufacturing Business Outlook Survey*, which is the oldest regional Federal Reserve manufacturing survey, turned 50 in May. Read more about the history of the survey at www.PhiladelphiaFed.org/MBOS50.



Firms Expect Production Increases to Continue

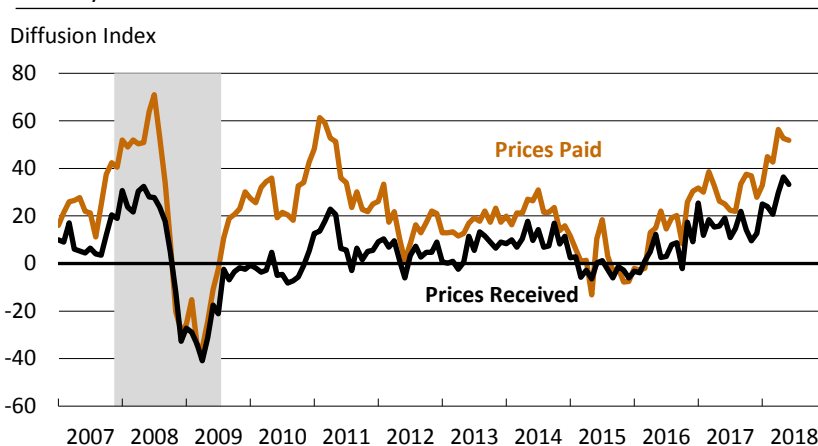
In this month's special questions (see Special Questions on page 3), firms were asked to estimate their total production growth for the second quarter ending this month along with expected growth for the third quarter. The share of firms reporting expected increases in third-quarter production (67 percent) was greater than the share reporting decreases (16 percent). Looking ahead to the third quarter, 58 percent of the firms expect acceleration in the rate of production, while 28 percent of the firms expect deceleration. For those firms expecting an increase in production, 39 percent expect to hire additional workers. The remaining firms indicated that they would increase the work hours of current workers (25 percent) or increase the productivity of current workers (27 percent) rather than increasing the number of workers.

Summary

Responses to the June *Manufacturing Business Outlook Survey* indicate continued expansion for the region's manufacturing sector, although indicators for general activity and new orders fell notably from last month. The firms reported continued increases in employment, and the indexes for prices

Chart 2. Current Prices Paid and Prices Received Indexes

January 2007 to June 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.

paid and received continued to reflect widespread price pressures. Looking ahead six months, the firms remain optimistic overall, but the survey's future indicators continued to moderate. ■

MANUFACTURING BUSINESS OUTLOOK SURVEY June 2018	June vs. May					Six Months from Now vs. June				
	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?	34.4	36.6	44.7	16.8	19.9	38.7	47.8	28.0	13.0	34.8
Company Business Indicators										
New Orders	40.6	38.0	41.8	20.2	17.9	40.3	46.0	40.1	7.7	38.2
Shipments	25.8	41.1	46.6	12.3	28.7	46.8	49.8	32.2	12.7	37.0
Unfilled Orders	15.3	17.2	61.9	19.9	-2.7	9.4	27.0	56.2	9.8	17.2
Delivery Times	18.5	15.8	76.5	6.2	9.6	7.5	11.2	73.2	9.7	1.5
Inventories	8.1	27.7	51.8	17.5	10.2	14.8	29.6	48.2	12.3	17.2
Prices Paid	52.6	53.9	41.8	2.2	51.8	63.4	66.6	25.1	4.0	62.6
Prices Received	36.4	33.9	63.5	0.7	33.2	33.6	57.0	35.9	0.4	56.6
Number of Employees	30.2	33.5	59.9	3.1	30.4	42.8	38.1	52.3	4.1	34.1
Average Employee Workweek	34.4	29.4	62.9	5.2	24.2	10.1	22.6	65.3	8.5	14.1
Capital Expenditures	--	--	--	--	--	21.6	41.3	47.6	4.8	36.5

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 June 18, 2018.



Special Questions (June 2018)				
1. How will your firm's total production for the second quarter compare with that of the first quarter?*				
		Change attributable to (%):		
	% of firms	Seasonal factors	Business conditions	Other
Increase	66.7	14.0	40.4	3.5
No change	17.5			
Decrease	15.8	7.0	7.0	1.8
*Subtotals may not sum to totals because of incomplete answers.				
2. For the upcoming third quarter , what do you expect for the pace of growth in production at your plant compared with the second quarter?				
Significant acceleration	12.3	% of firms expecting acceleration: 58.0		
Some acceleration	24.6			
Slight acceleration	21.1			
No change	14.0	% of firms expecting deceleration: 28.0		
Slight deceleration	14.0			
Some deceleration	10.5			
Significant deceleration	3.5			
3. If you expect to increase production in the third quarter , how will this be accomplished?				
Hiring additional workers	38.6			
Increasing work hours of current staff, without hiring additional workers	25.0			
Increasing productivity of current staff, without hiring additional workers	27.3			
Other	9.1			

