

August 2018

Growth in regional manufacturing activity slowed in August, according to results from this month's *Manufacturing Business Outlook Survey*. All the broad indicators remained positive but fell from their readings in July. The survey's respondents continued to indicate price increases for purchased inputs and their own manufactured products, but these price indexes moderated slightly this month. Expectations for the next six months remained optimistic, with most broad future indicators showing improvement.

### Current Indicators Still Positive but Weaken

The diffusion index for current general activity decreased 14 points this month to 11.9, its lowest reading in 21 months (see Chart 1). Nearly 32 percent of the manufacturers reported increases in overall activity this month, while 20 percent reported decreases. The new orders index fell 22 points to 9.9. More than 34 percent of the firms reported an increase in new orders, while 24 percent reported a decrease.

The firms continued to report overall higher employment, but increases were less widespread this month. Just 18 percent of the responding firms reported increases in employment this month, down from 24 percent last month. Only 4 percent of the firms reported decreases in employment. The current employment index fell 3 points to 14.3. The current average workweek index declined 3 points.

### Many Firms Continue to Report Price Increases

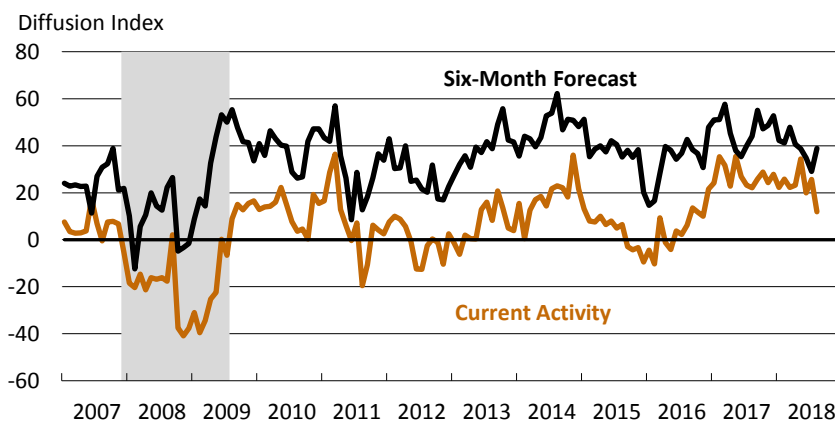
The survey's current price measures moderated slightly but remain elevated, indicating that price increases for both purchased inputs and the firms' own manufactured goods remain widespread. The prices paid index fell 8 points. Price increases for purchased inputs were reported by 63 percent of the manufacturers this month. Nearly 35 percent of the firms reported higher prices for their own manufactured goods this month, although the prices received index fell 3 points.

### Six-Month Indicators Rebound

The diffusion index for future general activity, after declining four consecutive months, increased from 29.0 in July to 38.8 this

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

January 2007 to August 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.

month (see Chart 1). Over 50 percent of the firms expect increases in activity over the next six months, while 12 percent expect declines. The future new orders and shipments indexes increased 10 points and 5 points, respectively. The future prices paid and received indexes edged higher, with 64 percent of the firms expecting price increases for purchased inputs over the next six months and 62 percent expecting higher prices for their own manufactured goods. The future employment index increased 5 points to a reading of 32.1, with almost 39 percent of the firms expecting to add workers over the next six months.

### Firms' Own Prices Expected to Match Rate of Inflation

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. Regarding their own

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The September 2018 *Manufacturing Business Outlook Survey* will be released on September 20, 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](http://www.PhiladelphiaFed.org/MBOS50).



prices, the firms' median forecast was for an increase of 3.0 percent, the same as when the same question was last asked in May. 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. When asked about the rate of inflation for U.S. consumers over the next year, the firms' median forecast was 3.0 percent, slightly higher than the 2.5 percent projected in the previous survey. The firms' forecast for the long-run (10-year average) inflation rate was also 3.0 percent.

### Summary

Responses to the *Manufacturing Business Outlook Survey* indicated slower growth for the region's manufacturing sector in August. The survey's broad current indicators declined from their readings last month but remained positive. Looking ahead six months, however, the firms remain optimistic, and most of the future indicators showed improvement. ■

<b>Special Questions (August 2018)</b>		
Over the next year (2018:Q3 to 2019:Q3), please list your expected annual percent change with respect to the following:		
	<b>Current Forecast</b>	Previous Forecast (May 2018)
<b>1. For your firm:</b>		
Prices your firm will receive (for its own goods and services sold).	<b>3.0</b>	3.0
Compensation your firm will pay per employee (for wages and benefits).	<b>3.0</b>	3.0
<b>2. For your employees:</b>		
Prices your employees will pay (for goods and services where they live).	<b>3.0</b>	2.0
<b>3. For U.S. consumers:</b>		
Prices U.S. consumers will pay (for goods and services).	<b>3.0</b>	2.5
<b>For the next 10 years (2018 through 2027), 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).	<b>3.0</b>	2.0
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.		

<b>MANUFACTURING BUSINESS OUTLOOK SURVEY August 2018</b>	<b>August vs. July</b>					<b>Six Months from Now vs. August</b>				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>
What is your evaluation of the level of general business activity?	<b>25.7</b>	31.5	48.1	19.7	<b>11.9</b>	<b>29.0</b>	50.4	28.2	11.6	<b>38.8</b>
Company Business Indicators										
New Orders	<b>31.4</b>	34.4	41.2	24.4	<b>9.9</b>	<b>28.3</b>	51.9	27.9	13.8	<b>38.1</b>
Shipments	<b>24.7</b>	36.3	44.1	19.6	<b>16.6</b>	<b>37.2</b>	57.7	25.5	15.6	<b>42.1</b>
Unfilled Orders	<b>11.0</b>	17.4	68.5	11.8	<b>5.6</b>	<b>3.3</b>	25.8	52.5	13.6	<b>12.3</b>
Delivery Times	<b>11.0</b>	14.0	75.9	7.6	<b>6.4</b>	<b>-1.6</b>	14.9	65.5	12.4	<b>2.5</b>
Inventories	<b>14.4</b>	27.4	56.8	12.0	<b>15.4</b>	<b>9.0</b>	20.7	53.9	18.5	<b>2.2</b>
Prices Paid	<b>62.9</b>	63.1	28.2	8.1	<b>55.0</b>	<b>59.7</b>	63.9	24.0	3.7	<b>60.2</b>
Prices Received	<b>36.3</b>	34.8	63.5	1.7	<b>33.2</b>	<b>50.6</b>	61.8	29.5	2.9	<b>58.9</b>
Number of Employees	<b>16.8</b>	18.0	78.2	3.7	<b>14.3</b>	<b>27.5</b>	38.7	49.7	6.6	<b>32.1</b>
Average Employee Workweek	<b>13.7</b>	23.7	61.8	13.0	<b>10.7</b>	<b>17.7</b>	26.6	59.6	11.4	<b>15.2</b>
Capital Expenditures	--	--	--	--	--	<b>31.4</b>	37.8	46.5	10.7	<b>27.1</b>
<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 13, 2018.										

