

Regional manufacturing activity continued to grow in September, according to results from this month's *Manufacturing Business Outlook Survey*. The survey's broad indicators for general activity, new orders, shipments, and employment remained positive and increased from their readings in August. The survey's respondents reported diminished price pressures this month. Expectations for the next six months remained optimistic, but most broad future indicators showed some moderation.

Current Indicators Show Improvement

The diffusion index for current general activity increased 11 points this month to 22.9, returning the index to near its average reading for 2018 (see Chart 1). Over 38 percent of the manufacturers reported increases in overall activity this month, while 15 percent reported decreases. The new orders index increased 12 points to 21.4. This month, 42 percent of the firms reported an increase in new orders, up from 34 percent in August. The current shipments index also improved, increasing 3 points to 19.6. The current inventories index fell 19 points this month and recorded its first negative reading in seven months. The firms, on balance, reported an increase in unfilled orders and longer delivery times.

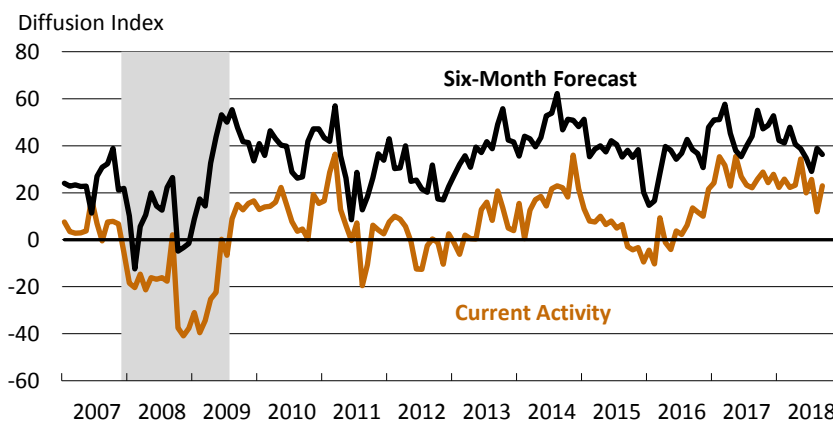
The firms continued to report overall higher employment. Over 26 percent of the responding firms reported increases in employment this month, up from 18 percent last month, while nearly 9 percent of the firms reported decreases in employment. The current employment index increased 3 points to 17.6.

Upward Price Pressures Diminish

The survey's diffusion indexes for prices remained positive but decreased from their readings in August (see Chart 2). On the cost side, 44 percent of the firms reported increases in the prices paid for inputs, down from 63 percent in August, and the prices paid index decreased 15 points to 39.6. With respect to prices received for firms' own manufactured goods, 25 percent of the firms reported higher prices compared with 35 percent last month. The prices received index decreased 14 points.

Chart 1. Current and Future General Activity Indexes

January 2007 to September 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 Moderate Slightly

The diffusion index for future general activity edged down from a reading of 38.8 in August to 36.3 this month (see Chart 1). Nearly 53 percent of the firms expect increases in activity over the next six months, while 16 percent expect declines. The future new orders and shipments indexes decreased 3 points and 7 points, respectively. The future prices paid and received indexes decreased 11 points and 15 points, respectively. Nearly 55 percent of the firms expect price increases for purchased inputs over the next six months. Over 48 percent expect higher prices for their own manufactured goods, down from 62 percent last month. The future employment index was little changed from last month at 31.7, with almost 38 percent of the firms expecting to add workers over the next six months.

Released: September 20, 2018, 8:30 a.m. ET.

The October 2018 *Manufacturing Business Outlook Survey* will be released on October 18, 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.



Most Firms Expect Higher Production During the Fourth Quarter

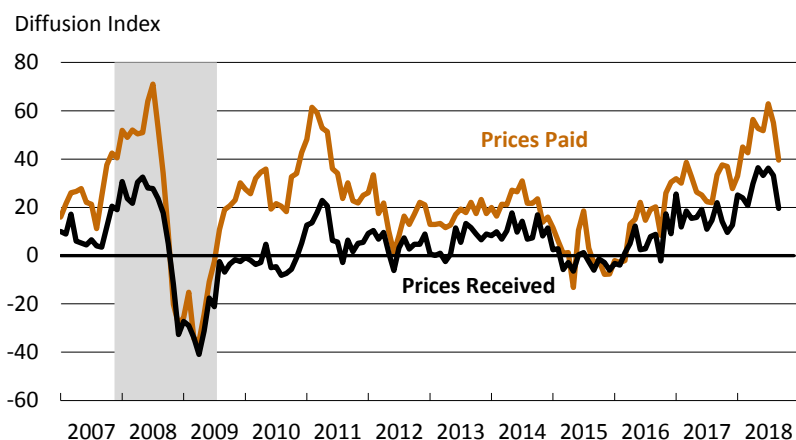
In this month's special questions, the firms were asked to estimate their total production growth for the third quarter ending this month along with expected growth for the fourth quarter (see Special Questions). The share of firms reporting increases in third-quarter production (56 percent) was greater than the share reporting decreases (36 percent). Looking ahead to the fourth quarter, 50 percent of the firms expect an increase in production compared with the third quarter, while 27 percent of the firms expect decreases. For those firms forecasting an increase in production, 24 percent of the firms will need to hire additional workers; 24 percent will increase production through higher productivity without hiring additional workers; and 22 percent will increase work hours without hiring additional workers.

Summary

Responses to the *Manufacturing Business Outlook Survey* indicated continued growth for the region's manufacturing sector in September. The survey's broad current indicators

Chart 2. Current Prices Paid and Prices Received Indexes

January 2007 to September 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.

increased from their readings last month. Looking ahead six months, the firms remain optimistic, although most future indicators moderated somewhat from their readings in August. ■

MANUFACTURING BUSINESS OUTLOOK SURVEY September 2018	September vs. August					Six Months from Now vs. September				
	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?	11.9	38.2	45.5	15.3	22.9	38.8	52.5	24.5	16.1	36.3
Company Business Indicators										
New Orders	9.9	42.0	37.1	20.6	21.4	38.1	50.0	27.4	15.3	34.7
Shipments	16.6	34.6	47.8	15.0	19.6	42.1	50.0	30.8	14.5	35.5
Unfilled Orders	5.6	23.8	64.9	11.2	12.6	12.3	24.4	56.3	13.9	10.5
Delivery Times	6.4	19.3	72.0	8.2	11.1	2.5	12.8	73.4	7.6	5.2
Inventories	15.4	16.8	63.0	20.2	-3.5	2.2	21.7	50.7	21.3	0.4
Prices Paid	55.0	44.4	50.8	4.8	39.6	60.2	54.5	35.8	4.9	49.6
Prices Received	33.2	25.4	68.7	5.8	19.6	58.9	48.1	42.7	3.9	44.2
Number of Employees	14.3	26.3	65.0	8.7	17.6	32.1	37.6	52.4	5.8	31.7
Average Employee Workweek	10.7	23.8	64.4	9.2	14.6	15.2	19.1	68.9	8.2	10.8
Capital Expenditures	--	--	--	--	--	27.1	31.7	54.8	5.0	26.7
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 September 17, 2018.										



Special Questions (September 2018)					
1. How will your firm's total production for the third quarter compare with that of the second quarter?					
		Change attributable to (%):			
	% of firms*	Seasonal factors	Business conditions	Other	No response
Increase	56.3	18.8	31.3	1.6	4.7
No change	6.3	0.0	1.6	0.0	4.7
Decrease	35.9	14.1	17.2	4.7	0.0
2. For the upcoming fourth quarter , what do you expect for production at your plant compared with the third quarter?					
Significant increase	0.0	% of firms expecting an increase:			
Some increase	21.9				
Slight increase	28.1				
No change	18.8	% of firms expecting a decrease:			
Slight decrease	9.4				
Some decrease	12.5				
Significant decrease	4.7				
3. If you expect to increase production in the fourth quarter , this will be accomplished by:					
Hiring additional workers	24.3				
Increasing work hours of current staff without hiring additional workers	21.6				
Increasing productivity of current staff without hiring additional workers	24.3				
Other	13.5				
*Subtotals may not sum to 100 because of incomplete answers.					

