

October 2018

Regional manufacturing activity continued to grow in October, 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 near their readings in September. The firms reported continued growth in employment and an increase in the average workweek this month. Expectations for the next six months remained optimistic.

### Survey Indexes Suggest Steady Growth

The diffusion index for current general activity edged down slightly, from 22.9 in September to 22.2 this month (see Chart 1). Nearly 36 percent of the manufacturers reported increases in overall activity this month, while 14 percent reported decreases. The new orders index decreased 2 points to 19.3, while the current shipments index increased 5 points to 24.5. The firms reported nearly no change in levels of inventories during October, as well as unfilled orders and delivery times (all of the indexes were near zero).

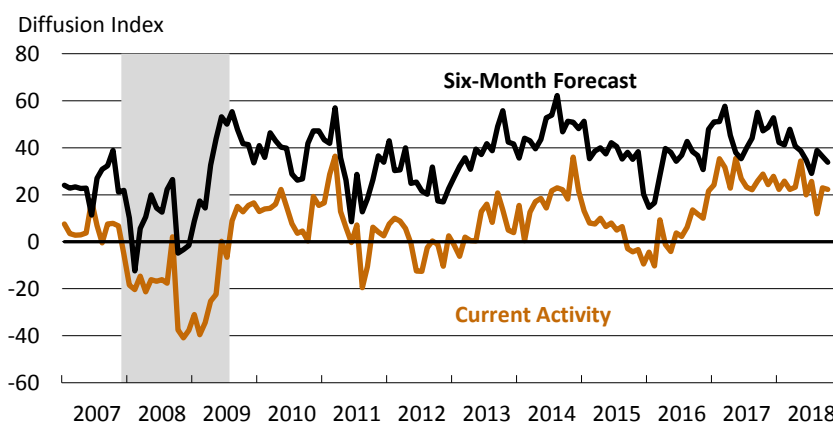
The firms continued to report overall higher employment. More than 30 percent of the responding firms reported increases in employment this month, while 11 percent of the firms reported decreases in employment. The current employment index increased 2 points to 19.5. The firms also reported a longer workweek this month, as the workweek index increased from 14.6 to 20.8

### Price Diffusion Indexes Less Than Earlier in the Year

The survey's diffusion indexes for prices remained positive but lower than their readings for most of this year (see Chart 2). On the cost side, 42 percent of the firms reported increases in the prices paid for inputs, and the prices paid index, which had fallen 15 points last month, decreased 1 point to 38.2. With respect to prices received for firms' own manufactured goods, 27 percent of the firms reported higher prices compared with 3 percent that reported decreases. The prices received index increased 5 points.

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

January 2007 to October 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 Remain Positive

The diffusion index for future general activity edged down from a reading of 36.3 in September to 33.8 this month (see Chart 1). Nearly 48 percent of the firms expect increases in activity over the next six months, while 14 percent expect declines. The future new orders and shipments indexes, however, increased 9 points and 1 point, respectively. The future employment index declined 2 points, but nearly 42 percent of the firms expect to add workers over the next six months.

### Total Capital Spending Expected to Increase Next Year

For this month's special questions, manufacturers were asked about current capacity utilization rates compared with the same time last year. The average capacity utilization rate reported

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

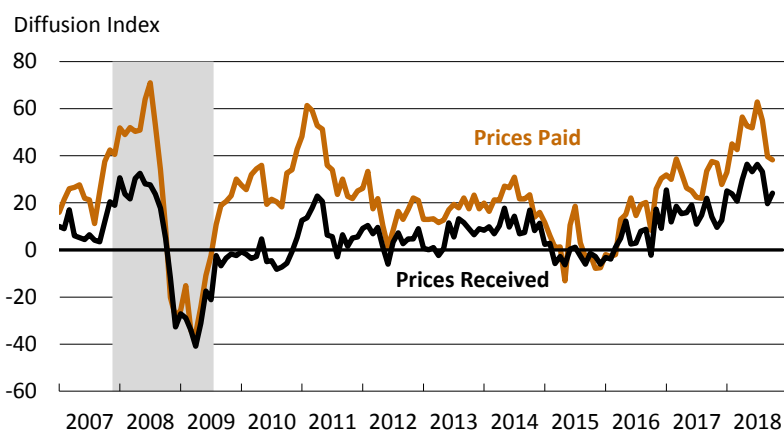
The *Manufacturing Business Outlook Survey*, which is the oldest regional Federal Reserve manufacturing survey, turned 50 in May. Read more about the history of the survey at [www.PhiladelphiaFed.org/MBOS50](http://www.PhiladelphiaFed.org/MBOS50).



among the responding firms was 79 percent, up by 1 percentage point from what was estimated for one year earlier. The firms were asked to forecast total capital spending for 2019 compared with levels in 2018, and more firms indicated that they would increase spending (41 percent) than decrease spending (14 percent). The firms were also asked about their plans for different categories of capital spending next year. For three categories of investment spending (software, computer and related hardware, and noncomputer equipment), the share of firms expecting to increase spending was higher than the share of firms expecting to decrease spending. Only the energy-saving investment and structure categories had more firms expecting decreases. The firms were also asked about the impact of tax reform and tariffs on their plans. On balance, the firms indicated net positive effects from the tax policy and modestly net negative effects from tariffs.

**Chart 2. Current Prices Paid and Prices Received Indexes**

January 2007 to October 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.

### Summary

Manufacturing firms reported continued growth in regional manufacturing in October. The survey's broad current indicators remained at high readings and were near their readings last month. Looking ahead six months, the firms

remain optimistic, and the survey's future indicators remained at relatively high levels. On balance, the firms also expect higher capital spending next year. ■

MANUFACTURING BUSINESS OUTLOOK SURVEY October 2018	October vs. September					Six Months from Now vs. October				
	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?	<b>22.9</b>	35.9	48.6	13.7	<b>22.2</b>	<b>36.3</b>	47.7	33.7	13.9	<b>33.8</b>
Company Business Indicators										
New Orders	<b>21.4</b>	34.6	49.2	15.4	<b>19.3</b>	<b>34.7</b>	54.4	32.6	11.0	<b>43.4</b>
Shipments	<b>19.6</b>	36.4	50.5	11.9	<b>24.5</b>	<b>35.5</b>	47.5	36.8	10.6	<b>36.9</b>
Unfilled Orders	<b>12.6</b>	11.0	73.8	13.3	<b>-2.3</b>	<b>10.5</b>	21.5	55.9	18.1	<b>3.4</b>
Delivery Times	<b>11.1</b>	12.5	75.2	12.3	<b>0.2</b>	<b>5.2</b>	8.2	74.3	13.1	<b>-4.9</b>
Inventories	<b>-3.5</b>	17.0	62.7	17.8	<b>-0.8</b>	<b>0.4</b>	24.2	57.8	11.8	<b>12.4</b>
Prices Paid	<b>39.6</b>	42.0	47.5	3.8	<b>38.2</b>	<b>49.6</b>	57.7	35.3	3.7	<b>54.1</b>
Prices Received	<b>19.6</b>	26.7	66.9	2.6	<b>24.1</b>	<b>44.2</b>	56.3	34.2	5.2	<b>51.1</b>
Number of Employees	<b>17.6</b>	30.1	58.3	10.6	<b>19.5</b>	<b>31.7</b>	41.7	43.2	11.5	<b>30.2</b>
Average Employee Workweek	<b>14.6</b>	28.7	61.7	7.9	<b>20.8</b>	<b>10.8</b>	25.8	61.0	8.2	<b>17.6</b>
Capital Expenditures	--	--	--	--	--	<b>26.7</b>	32.8	53.3	7.7	<b>25.2</b>

**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 October 16, 2018.



## Special Questions (October 2018)

1. Which of the following best characterizes your plant's current capacity utilization rate (current and last year)?

Capacity Utilization Rate*	Current (% of reporters)	Same Time Last Year (% of reporters)
Less than 60%	8.0	6.0
60%–70%	18.0	12.0
70%–80%	18.0	40.1
80%–90%	40.0	36.0
Greater than 90%	16.1	6.0
Average utilization rate	78.8	77.7
U.S. utilization rate**	76.5	75.6

2. Do you expect the following capital expenditure categories over the next year (2019) to be higher than, the same, or lower than in the current year?

	Higher (% of reporters)	Same (% of reporters)	Lower (% of reporters)	Diffusion Index
Total	40.9	45.5	13.6	27.3
Noncomputer equipment	37.5	42.6	20.8	16.7
Computer and related hardware	30.4	51.1	17.4	13.0
Software	31.9	48.9	19.1	12.8
Structure	17.0	53.2	26.7	-9.6
Energy-saving investments	2.3	76.6	15.9	-13.6

3. How have each of the two factors, tax relief and trade policy (including tariffs), affected your expected capital spending for 2019 compared with 2018?

	Tax Relief	Tariff Increases/ Trade Policy
Significantly increase	17.0	3.8
Modestly increase	22.6	9.4
Not change	60.4	64.2
Modestly decrease	0.0	15.1
Significantly decrease	0.0	3.8
No response	0.0	3.9

\*The firms provided more specific rates of utilization than shown in the provided ranges.

\*\*Capacity Utilization: U.S. Manufacturing (NAICS) "Current" shows the rate for September 2018; "Same Time Last Year" shows the rate for October 2017.

Sources: Federal Reserve Board, Haver Analytics

