

January 2019

Manufacturing activity in the region continued to grow, according to results from the January *Manufacturing Business Outlook Survey*. The survey's broad indicators remained positive, although their movements were mixed again this month: The general activity and new orders indicators increased from their readings last month, while the indicators for shipments and employment decreased. The firms reported growth in the underlying demand for their products and are generally optimistic about future growth and employment.

Current Indicators Suggest Growth

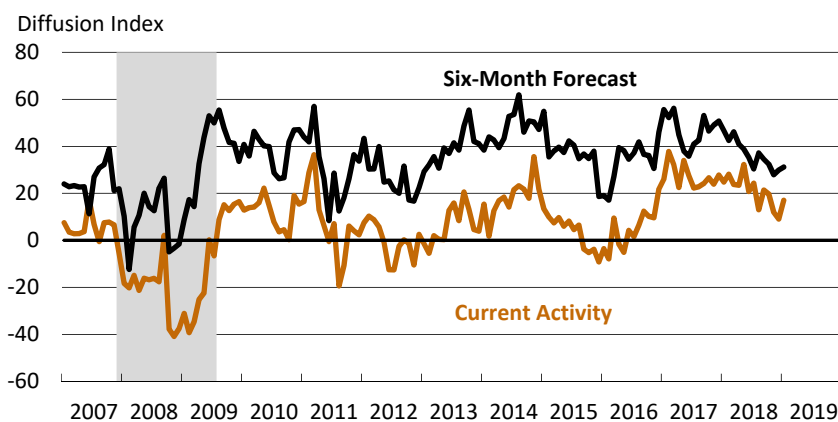
The index for current manufacturing activity in the region increased from a revised reading of 9.1 in December to 17.0 this month* (see Chart 1). Over 30 percent of the manufacturers reported increases in overall activity, while 13 percent reported decreases. The new orders index increased 8 points to 21.3, its highest reading in six months. The current shipments index, however, decreased 1 point to 11.4. Both the unfilled orders and delivery times indexes were positive this month, suggesting higher unfilled orders and slower delivery times. Inventories declined this month: The current inventory index fell 10 points to -7.6, its first negative reading in 14 months.

The firms continued to report overall higher employment, but the current employment index fell nearly 10 points to 9.6, its lowest reading in 16 months. Over 22 percent of the responding firms reported increases in employment this month, while 13 percent of the firms reported decreases in employment. The current workweek index increased 2 points to a reading of 6.0.

Price Index for Inputs Continues Downward Trend

The survey's diffusion indexes for prices remained positive but decreased from their readings in December. On the cost side, the prices paid index decreased 6 points to 32.7. The index has been trending down since last July and is at its lowest reading in 13 months (see Chart 2). With respect to prices received for firms' own manufactured goods, 29 percent of the

Chart 1. Current and Future General Activity Indexes
January 2007 to January 2019



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.

firms reported higher prices, and 4 percent reported lower prices. The prices received index decreased 4 points to 24.8.

Most Six-Month Indicators Remain Positive

The diffusion index for future general activity increased slightly, from a revised reading of 29.9 to a reading of 31.2 this month (see Chart 1). Over 46 percent of the firms expect increases in activity over the next six months, while 15 percent expect declines. The future new orders index decreased 6 points, but the future shipments index increased 1 point. The future employment index edged up 1 point, with nearly 41 percent of the firms indicating that they expect to add workers over the next six months.

Released: January 17, 2019, 8:30 a.m. ET.

The February 2019 *Manufacturing Business Outlook Survey* will be released on February 21, 2019, at 8:30 a.m. ET.

* The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on January 10, 2019. The full set of revised historical data is available at www.philadelphiafed.org/mbos-histrev2019.



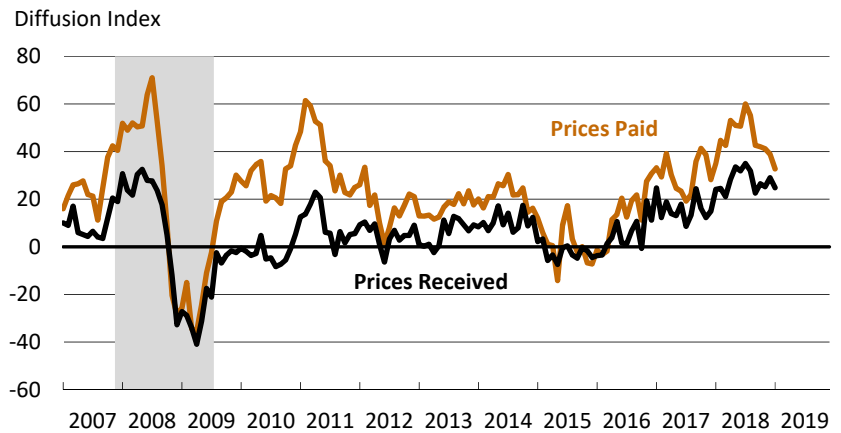
Firms Expect to Increase Production in Near Term

In Special Questions this month, the firms were asked to characterize current demand and production of their manufactured products over the past few months and to forecast their production increases for the first quarter of the year (see Special Questions on page 3). Most firms (46 percent) reported an increase in underlying demand: Only 11 percent characterized underlying demand as increasing significantly, while 35 percent characterized it as increasing modestly. Over 65 percent of the firms anticipate increasing production in the first quarter, although 29 percent expect decreases. Among those increasing production, one-third indicated this will require hiring additional labor.

Summary

The firms' responses indicated continued growth in the region's manufacturing sector this month. The survey's broad current indicators remained positive, and the indexes for activity and new orders improved. The firms reported

Chart 2. Current Prices Paid and Prices Received Indexes
January 2007 to January 2019



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.

moderated increases in employment this month but indicated plans for further increases over the next six months, in line with expanded production of manufactured products. The survey's future indexes indicate that respondents continue to expect growth over the next six months. ■

MANUFACTURING BUSINESS OUTLOOK SURVEY January 2019	January vs. December					Six Months from Now vs. January				
	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?	9.1	30.4	53.1	13.4	17.0	29.9	46.4	28.5	15.2	31.2
Company Business Indicators										
New Orders	13.3	38.3	44.8	16.9	21.3	38.5	46.8	33.0	14.6	32.2
Shipments	12.4	30.9	49.0	19.5	11.4	35.0	47.3	36.4	11.0	36.2
Unfilled Orders	9.1	20.9	60.9	15.5	5.4	10.6	17.4	61.2	17.8	-0.4
Delivery Times	5.5	23.0	65.9	9.6	13.4	2.0	12.8	70.8	12.9	-0.1
Inventories	2.6	13.4	65.7	20.9	-7.6	2.3	24.4	54.4	16.6	7.8
Prices Paid	38.9	39.8	53.1	7.1	32.7	60.9	45.1	46.4	5.2	39.9
Prices Received	29.0	28.8	66.6	4.0	24.8	47.9	38.2	50.6	4.1	34.1
Number of Employees	19.1	22.1	63.4	12.5	9.6	33.5	40.9	48.9	6.2	34.7
Average Employee Workweek	4.0	19.8	61.5	13.9	6.0	10.2	24.4	58.8	7.4	17.0
Capital Expenditures	--	--	--	--	--	34.5	38.8	48.3	7.2	31.6
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 January 14, 2019.										

Special Questions (January 2019)		
1. Over the past several months, how would you characterize the underlying demand for your manufactured products? <i>Exclude any purely seasonal effects.</i>		
	% of firms	% of firms reporting increasing demand:
Significantly increasing	11.1	46.3
Modestly increasing	35.2	
No change	25.9	
Modest deceleration	22.2	% of firms reporting decreasing demand:
Significant deceleration	5.6	
2. How will your firm's total production for the first quarter of 2019 compare with that of the last quarter of 2018?		
An increase of:	% of firms	Subtotals
10% or more	5.8	% of firms expecting an increase: 65.4
8–10%	0.0	
6–8%	3.8	
4–6%	11.5	
2–4%	23.1	
1–2%	17.3	
less than 1%	3.8	
No change	5.8	
A decline of:		
less than 1%	1.9	% of firms expecting a decrease: 28.8
1–2%	0.0	
2–4%	9.6	
4–6%	7.7	
6–8%	1.9	
8–10%	1.9	
10% or more	5.8	
3. If you expect to increase production in the next quarter, by what means will this be accomplished?		
	% of firms	
Hiring additional workers	33.3	
Increasing work hours of current staff without hiring additional workers	36.4	
Increasing productivity of current staff without hiring additional workers	24.2	
Other	6.1	

