

February 2019

Manufacturing conditions in the region weakened this month, according to firms responding to the February *Manufacturing Business Outlook Survey*. The indicators for general activity, new orders, and shipments fell into negative territory, but the indicator for employment remained positive. Input prices also moderated notably this month. The survey's indexes for future conditions were mostly steady, with firms remaining generally optimistic about growth over the next six months.

Some Indicators Suggest Weaker Conditions

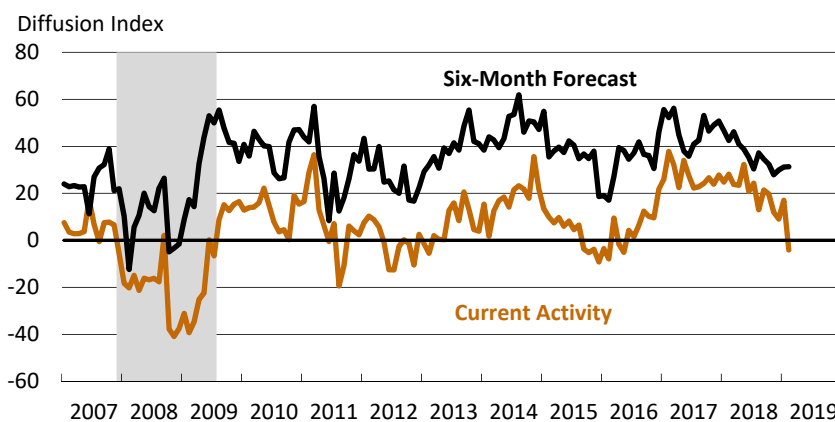
The index for current manufacturing activity in the region decreased from a reading of 17.0 in January to -4.1 this month. This is the index's first negative reading since May 2016 (see Chart 1). Both the new orders and shipments indexes also fell this month. The current new orders index decreased nearly 24 points to -2.4, and the current shipments index decreased 17 points to -5.3.

The firms continued to add to their payrolls this month. The current employment index improved from a reading of 9.6 in January to 14.5 this month. Nearly 24 percent of the responding firms reported increases in employment, while 9 percent of the firms reported decreases in employment. The current workweek index also remained positive but decreased 1 point to a reading of 4.7.

Inputs Price Pressures Continue to Moderate

Price pressures originating from purchased inputs continued to abate. The prices paid index decreased 11 points to 21.8. The index has been trending down since last July and is now at its lowest reading since July 2017 (see Chart 2). Over 28 percent of the firms reported higher input prices this month, down from 40 percent last month. With respect to prices received for firms' own manufactured goods, almost 33 percent of the firms reported higher prices, and 5 percent reported lower prices. The prices received index increased 3 points to 27.7.

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

Expectations Hold Steady, but Employment Forecast Moderated

The diffusion index for future general activity held virtually steady this month, at 31.3 (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 3 points, but the future shipments index increased 4 points. The future employment index fell 11 points to 23.6, its lowest reading since November 2016. However, the percentage of firms expecting to increase employment over the next six months (31 percent) remained higher than the percentage expecting to decrease employment (7 percent).

Released: February 21, 2019, 8:30 a.m. ET.

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

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



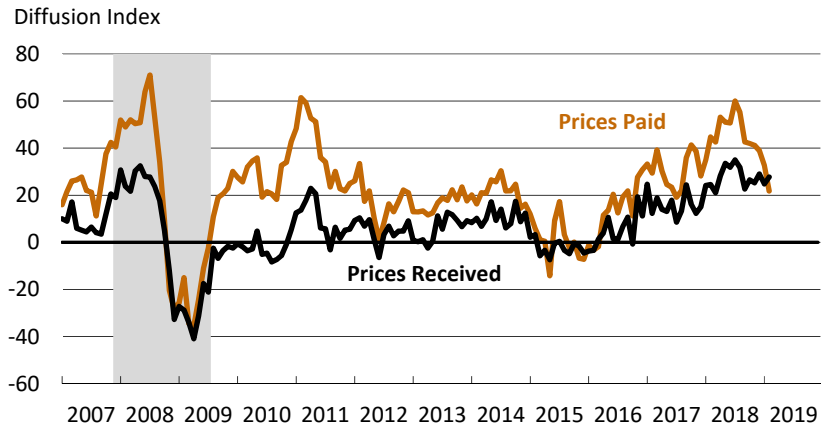
Firms Expect Own Prices to Rise Faster Than Inflation

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 prices, the firms' median forecast was for an increase of 2.9 percent, about the same as when the question was last asked in November. 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 2.3 percent, a decrease from 3.0 percent in the previous quarter. The firms' median forecast for the long-run (10-year average) inflation rate also decreased, from 3.0 percent to 2.5 percent.

Summary

The firms' responses indicated weaker conditions in the region's manufacturing sector this month. The survey's

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

broadest measures (for activity, new orders, and shipments) were negative, yet firms reported continued increases in employment this month. The survey's future indexes indicate that respondents continue to expect growth over the next six months. ■

MANUFACTURING BUSINESS OUTLOOK SURVEY February 2019	February vs. January					Six Months from Now vs. February				
	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?	17.0	14.6	64.1	18.7	-4.1	31.2	46.2	28.8	14.9	31.3
Company Business Indicators										
New Orders	21.3	21.7	54.2	24.1	-2.4	32.2	44.9	33.1	15.4	29.4
Shipments	11.4	21.9	50.9	27.2	-5.3	36.2	51.9	28.3	12.1	39.8
Unfilled Orders	5.4	23.1	60.8	16.1	6.9	-0.4	21.5	63.6	9.9	11.7
Delivery Times	13.4	18.2	77.1	4.7	13.6	-0.1	10.9	69.7	14.6	-3.6
Inventories	-7.6	24.6	52.6	21.3	3.3	7.8	21.4	53.2	17.2	4.2
Prices Paid	32.7	28.2	64.7	6.4	21.8	39.9	41.4	50.7	1.6	39.8
Prices Received	24.8	32.5	62.4	4.7	27.7	34.1	29.9	61.4	0.2	29.7
Number of Employees	9.6	23.6	64.1	9.1	14.5	34.7	30.8	54.9	7.2	23.6
Average Employee Workweek	6.0	14.0	76.8	9.3	4.7	17.0	13.6	74.6	6.7	6.9
Capital Expenditures	--	--	--	--	--	31.6	37.0	49.2	5.2	31.7

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 February 19, 2019.

Special Questions (February 2019)		
Over the next year (2019:Q1 to 2020:Q1), please list your expected annual percent change with respect to the following:		
	Current Forecast	Previous Forecast (November 2018)
1. For your firm:		
Prices your firm will receive (for its own goods and services sold).	2.9	3.0
Compensation your firm will pay per employee (for wages and benefits).	3.0	3.0
2. For your employees:		
Prices your employees will pay (for goods and services where they live).	2.3	2.5
3. For U.S. consumers:		
Prices U.S. consumers will pay (for goods and services).	2.3	3.0
For the next 10 years (2019 through 2028), what is your expected annual average percent change with respect to the following:		
4. For U.S. consumers:		
Prices U.S. consumers will pay (for goods and services).	2.5	3.0
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.		

