

March 2019

Manufacturing conditions in the region improved this month, according to firms responding to the March *Manufacturing Business Outlook Survey*. The indicators for general activity, new orders, and shipments returned to positive territory, while the indicator for employment remained positive. Price pressures also moderated, according to the surveyed firms. Most of the survey's indexes for future conditions continued to moderate, but the firms remained generally optimistic about growth over the next six months.

Most Current Indicators Rebound

The index for current manufacturing activity in the region increased from a reading of -4.1 in February to 13.7 this month. The index nearly recovered its decline from last month, when it dropped to its first negative reading in almost three years (see Chart 1). Both the new orders and shipments indexes also increased this month. The current new orders index improved modestly, increasing from -2.4 in February to 1.9 in March. The current shipments index increased 25 points to 20.0.

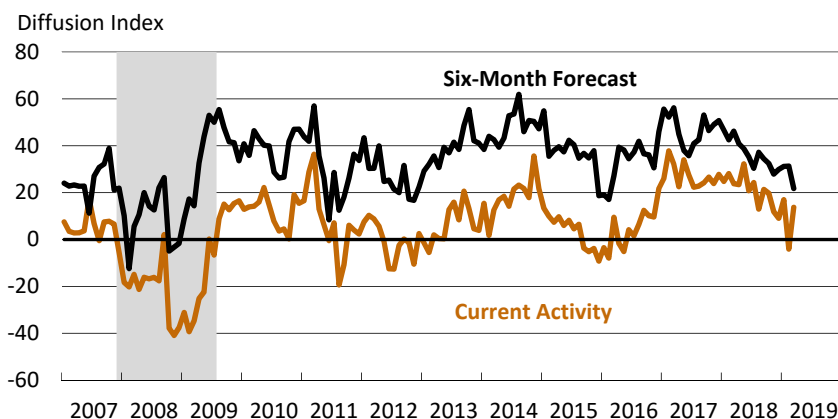
The firms continued to add to their payrolls this month. The current employment index, however, decreased from a reading of 14.5 in February to 9.6 this month. Nearly 20 percent of the responding firms reported increases in employment, while 10 percent of the firms reported decreases in employment. The current workweek index remained positive and increased 6 points to 10.6.

Price Pressures Continue to Moderate

Price pressures arising from purchased inputs continued to ease. The prices paid index decreased 2 points to 19.7. The prices paid index declined for the eighth consecutive month and is at its lowest reading since July 2017 (see Chart 2). Nearly 24 percent of the firms reported higher input prices this month, down from 28 percent last month. With respect to prices received for firms' own manufactured goods, 26 percent of the firms reported higher prices, down from 33 percent last month. The prices received index decreased 3 points to 24.7.

Chart 1. Current and Future General Activity Indexes

January 2007 to March 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 Less Optimistic but Still Expect to Expand Employment

The diffusion index for future general activity declined nearly 10 points to 21.8 this month, its lowest reading since February 2016 (see Chart 1). Nearly 42 percent of the firms expect increases in activity over the next six months, while 20 percent expect declines. The future new orders index also decreased 10 points, and the future shipments index decreased 19 points. The future employment index edged up 1 point to 24.9. The percentage of firms expecting to increase employment over the next six months (38 percent) remained higher than the percentage expecting to decrease employment (13 percent). The future capital spending index fell 12 points to 19.5, its lowest reading since November 2016.

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

The April 2019 *Manufacturing Business Outlook Survey* will be released on April 18, 2019, at 8:30 a.m. ET.

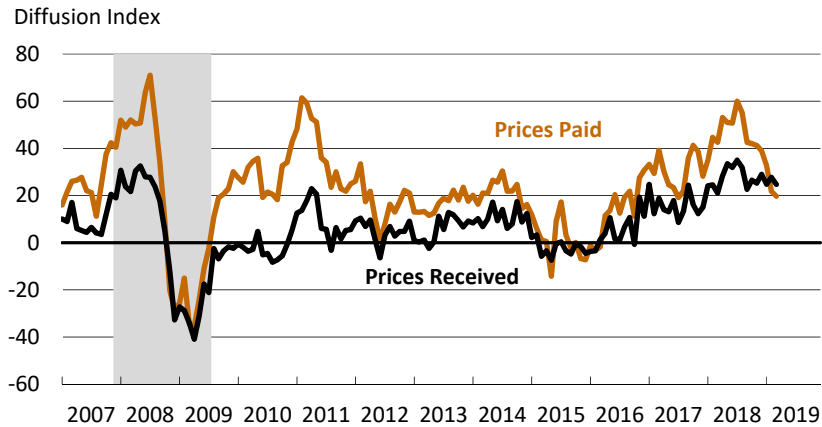
The *Manufacturing Business Outlook Survey*, which is the oldest regional Federal Reserve manufacturing survey, turned 50 last May. Read more about the history of the survey at www.PhiladelphiaFed.org/MBOS50.



Firms Report Increasing Difficulties Finding Skilled Workers in Tight Labor Market

In special questions this month, the firms were asked generally about worker shortages, any perceived mismatches between skill requirements and labor supply, and how they were dealing with these problems (see Special Questions on page 3). Nearly 74 percent of the firms indicated labor shortages, while 66 percent indicated skills mismatches between requirements and available labor. Nearly 51 percent of the surveyed firms also reported that they had positions that have remained vacant for more than 90 days. Over 47 percent of the firms indicated a tightening of the labor market, such that it is getting harder to fill positions, up from 35 percent when the question was asked last year. In addition to increasing wages and stepping up recruiting efforts, the firms have adopted a mix of strategies to deal with these problems, including increasing training of existing employees and new hires as well as recruiting outside the region. A sizable share of firms (30 percent) indicated that they have hired less qualified workers to meet their labor requirements.

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

Summary

The firms' responses indicated some growth in the region's manufacturing sector this month. The survey's broadest measures for activity, new orders, and shipments were positive and recovered from negative readings last month. On balance, the firms continued to report growth in employment. The survey's future indexes indicate that respondents continue to expect growth over the next six months, but most readings have been trending lower.

MANUFACTURING BUSINESS OUTLOOK SURVEY March 2019	March vs. February					Six Months from Now vs. March				
	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?	-4.1	32.2	48.3	18.5	13.7	31.3	41.7	35.8	19.9	21.8
Company Business Indicators										
New Orders	-2.4	26.1	46.4	24.2	1.9	29.4	40.8	35.6	21.1	19.8
Shipments	-5.3	33.8	48.6	13.8	20.0	39.8	37.9	44.3	17.5	20.5
Unfilled Orders	6.9	16.8	68.7	13.7	3.1	11.7	24.6	63.2	11.5	13.1
Delivery Times	13.6	16.5	75.7	7.7	8.8	-3.6	7.1	77.5	14.6	-7.5
Inventories	3.3	32.0	50.3	14.8	17.2	4.2	13.8	62.6	23.6	-9.8
Prices Paid	21.8	23.9	71.3	4.1	19.7	39.8	54.5	38.2	7.3	47.3
Prices Received	27.7	26.2	71.1	1.6	24.7	29.7	37.4	57.6	5.0	32.4
Number of Employees	14.5	19.9	68.9	10.3	9.6	23.6	38.1	48.7	13.2	24.9
Average Employee Workweek	4.7	19.6	68.1	9.0	10.6	6.9	22.5	62.0	13.4	9.2
Capital Expenditures	--	--	--	--	--	31.7	32.0	52.9	12.5	19.5

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 March 18, 2019.

Special Questions (March 2019)		
1. Has your firm experienced any significant labor shortages or mismatches between labor skill requirements and labor supply?*		
	2019 (%)	2018 (%)
Labor shortages	73.6	63.8
Skills mismatches	66.0	69.6
Job vacancies remaining more than three months	50.9	47.8
2. Is your firm experiencing a labor shortage in general or in certain skills, abilities, or positions?		
We are hiring and receive a sufficient number of qualified applicants to fill open positions.	1.9	1.5
We are seeing a significant shortage in qualified applicants for some skills and positions.	20.8	41.2
We are seeing a tightening labor market, such that it is getting harder to fill positions in general, but still possible to fill them.	47.2	35.3
We are seeing a broad labor shortage, such that it is hard to fill any position.	17.0	7.4
We are not hiring.	13.2	7.4
Not applicable	0.0	2.9
No response	0.0	4.4
3. What actions has your firm taken to address skills shortages?*		
Increased recruitment efforts	66.0	75.4
Increased wages	54.7	50.7
Provided additional training to existing staff	52.8	52.2
Increased training for hired workers**	43.4	-
Partnered with educational institution to align curriculum with talent needs	41.5	34.8
Expanded recruitment outside the region	32.1	24.6
Hired less qualified workers to meet labor requirements**	30.2	-
Increased recruitment incentives	22.6	15.9
Increased benefits	17.0	14.5
Used phased retirement program to retain older workers	13.2	10.1
Decreased production	9.4	4.3
Other	3.8	0.0
*Percentage will not sum to 100 percent because more than one answer could be selected.		
**These categories were added in 2019.		

