

December 2019

Manufacturing activity in the region was flat this month, according to results from the December *Manufacturing Business Outlook Survey*. The survey's broad indicator for current activity dropped to a reading near zero this month, although indicators for new orders, shipments, and employment remained at higher positive readings. The survey's future activity indexes remained positive, suggesting continued optimism about growth for the next six months.

Changes in Current Indicators Were Mixed This Month

The diffusion index for current general activity fell 10 points this month to 0.3, its lowest reading in six months (see Chart 1). The percentage of firms reporting increases was equal to the percentage reporting decreases (29 percent). The indexes for current shipments and new orders moved higher: The current new orders index increased 1 point, while the shipments index increased 6 points. Both the unfilled orders and delivery times indexes remained positive this month, suggesting higher unfilled orders and slower delivery times.

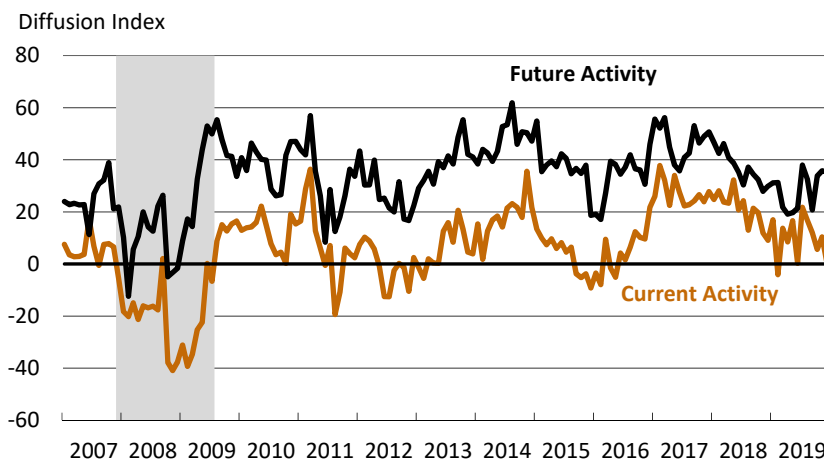
Manufacturers continued to report expanding employment this month, although the current employment index decreased 4 points to 17.8. Nearly 19 percent of the firms reported higher employment, while only 1 percent reported lower employment. The average workweek index remained positive and edged up 2 points.

More Firms Reported Input Price Increases This Month

The firms continued to report overall increases in the prices paid for inputs, with the index rising 11 points to 19.0 (see Chart 2). Over 25 percent of the respondents reported higher input prices, up from 17 percent in November. The current prices received index, reflecting the manufacturers' own prices, ticked down to a reading of 11.9. Over 80 percent of the firms reported no change in their own product prices this month.

Chart 1. Current and Future General Activity Indexes

January 2007 to December 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 Expect Highest Cost Increases for Health Benefits

In this month's special questions, the firms were asked about their expectations for changes in various input and labor costs for the coming year. The median expected increase for wages was 2.5 percent, for health benefits costs was 4.5 percent, and for nonhealth benefits costs was 2.5 percent. Median growth in total wage compensation costs (wages plus benefits) was forecast to be 3.5 percent. The costs of raw materials and intermediate goods are expected to increase 1.5 percent, and energy costs were forecast to be unchanged. The firms were also asked how the expected cost increases for 2020 will compare with this year's cost changes. For all categories of expenses, the firms forecast, on balance, increases greater than in 2019.

Released: December 19, 2019, 8:30 a.m. ET.

The January 2020 *Manufacturing Business Outlook Survey* will be released on January 16, 2020, at 8:30 a.m. ET.

The survey's annual historical revisions, which incorporate new seasonal adjustment factors, will be released on Thursday, January 9, 2020, at 8:30 a.m. ET.



Firms Remain Generally Optimistic

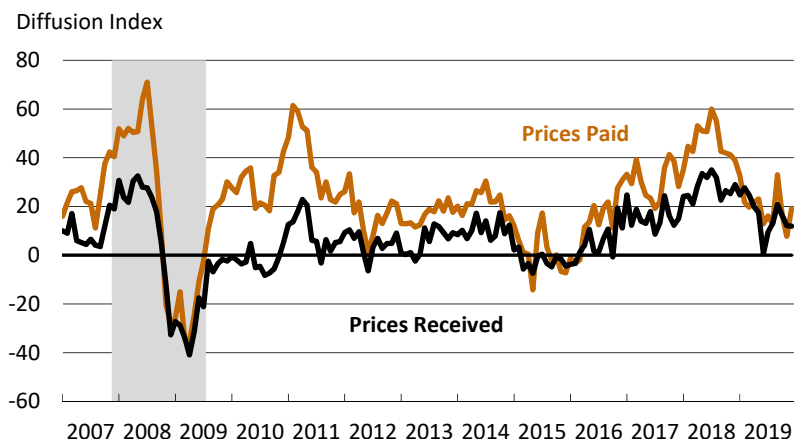
The diffusion index for future general activity edged down 1 point to 35.2 (see Chart 1). Nearly 43 percent of the firms expect increases in activity over the next six months, while 8 percent expect declines. The future new orders index decreased 5 points, and the future shipments index decreased 2 points. The future employment index increased 5 points this month, and the firms remain optimistic about future hiring overall: Nearly 41 percent of the firms expect higher employment over the next six months. The firms were more optimistic about future capital spending this month: The future capital spending index increased 8 points.

Summary

The December *Manufacturing Business Outlook Survey* indicated essentially flat growth in the region's manufacturing sector this month. Although they all remained positive, the indicators for general activity and employment declined, while the indicators for new orders and shipments edged higher. The survey's future indexes indicate that respondents continue to expect growth over the next six months. ■

Chart 2. Current Prices Paid and Prices Received Indexes

January 2007 to December 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.

MANUFACTURING BUSINESS OUTLOOK SURVEY December 2019	December vs. November					Six Months from Now vs. December				
	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?	10.4	29.4	40.7	29.1	0.3	35.8	42.7	38.5	7.5	35.2
Company Business Indicators										
New Orders	8.4	34.4	38.6	25.0	9.4	40.3	49.9	31.5	14.3	35.6
Shipments	9.8	33.5	47.7	17.5	15.9	41.4	53.1	29.1	14.2	39.0
Unfilled Orders	6.0	22.9	64.5	12.5	10.4	13.2	25.5	58.4	10.8	14.7
Delivery Times	8.5	21.7	66.3	11.1	10.6	7.3	9.5	74.7	13.8	-4.2
Inventories	-4.6	23.5	55.5	17.4	6.1	6.9	24.6	51.4	18.3	6.3
Prices Paid	7.8	25.2	68.6	6.1	19.0	43.2	51.7	44.9	0.8	50.9
Prices Received	12.2	14.4	80.3	2.5	11.9	36.7	49.3	50.7	0.0	49.3
Number of Employees	21.5	18.7	80.4	0.9	17.8	24.0	40.6	45.7	12.0	28.6
Average Employee Workweek	5.2	19.6	68.5	11.9	7.7	14.8	31.2	55.1	12.1	19.1
Capital Expenditures	--	--	--	--	--	19.4	34.1	58.0	6.5	27.6

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 December 16, 2019.

Special Questions (December 2019)

1. What percentage change in costs do you expect for the following categories in 2020?

	Energy (%)	Other Raw Materials (%)	Intermediate Goods (%)	Wages (%)	Health Benefits (%)	Nonhealth Benefits (%)	Wages + Health Benefits + Nonhealth Benefits (%)
Decline of more than 4%	1.7	0.0	0.0	0.0	1.7	0.0	0.0
Decline of 3–4%	1.7	1.8	0.0	0.0	0.0	0.0	0.0
Decline of 2–3%	1.7	1.8	0.0	0.0	0.0	0.0	1.7
Decline of 1–2%	8.5	3.5	1.7	0.0	1.7	0.0	0.0
No change	37.3	22.8	20.7	8.5	20.3	32.2	8.6
Increase of 1–2%	25.4	22.8	31.0	5.1	6.8	11.9	8.6
Increase of 2–3%	18.6	22.8	27.6	47.5	6.8	27.1	24.1
Increase of 3–4%	3.4	17.5	17.2	37.3	5.1	18.6	19.0
Increase of 4–5%	1.7	1.8	1.7	1.7	16.9	6.8	22.4
Increase of 5–7.5%	0.0	1.8	0.0	0.0	18.6	3.4	5.2
Increase of more than 7.5%	0.0	3.5	0.0	0.0	22.1	0.0	10.2
Median Expected Change	0.0	1.5	1.5	2.5	4.5	2.5	3.5
Average Expected Change	0.7	1.9	1.8	2.6	4.9	2.0	4.1

2. How do these expected cost changes compare with those in 2019?

Higher	10.7	33.9	26.4	42.9	35.7	14.3	46.4
Same	80.4	51.8	69.8	53.6	57.1	85.7	51.8
Lower	8.9	14.3	3.8	3.6	7.1	0.0	1.8
Diffusion Index (Higher Minus Lower)	1.8	19.6	22.6	39.3	28.6	14.3	44.6

*The firms responded to more detailed changes than shown in the provided ranges. Percentages may not add to 100 percent because some reporters did not answer all questions.