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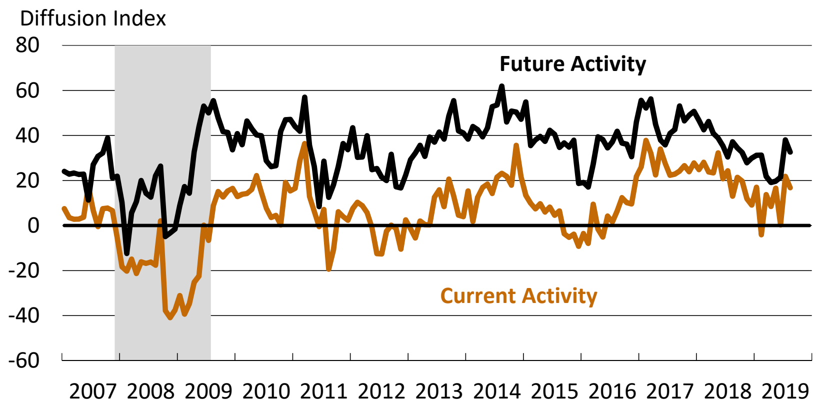
MBOS MANUFACTURING BUSINESS OUTLOOK SURVEY

August 2019

Manufacturing activity in the region continued to grow, according to results from the August *Manufacturing Business Outlook Survey*. The survey's broad indicators remained positive, although their movements were mixed this month: The general activity, shipments, and employment indicators decreased from their readings last month, but the indicator for new orders increased. The survey's future activity indexes remained positive, suggesting continued optimism about growth for the next six months.

Chart. Current and Future General Activity Indexes
January 2007 to August 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.

Current Indexes Indicate Growth

The diffusion index for current general activity fell 5 points this month to 16.8, after increasing 22 points in July (see Chart). Movements in the indexes for current shipments and new orders were mixed: The current new orders index increased 7 points, while the shipments index decreased 6 points. Both the unfilled orders and delivery times indexes remained positive this month, suggesting higher unfilled orders and slower delivery times.

The firms reported overall increases in manufacturing employment this month, but the current employment index decreased 26 points to 3.6, its lowest reading since November 2016. Nearly 25 percent of the firms reported higher employment, compared with 36 percent last month. Nearly 21 percent of the firms reported decreases in employment this month, up from 6 percent last month. The average workweek index also decreased but remained positive.

Price Indexes Suggest Modest Price Pressures

The firms continued to report increases in the prices paid for inputs. The percentage of firms reporting increases in input prices (25 percent) remained higher than the percentage reporting decreases (12 percent). The prices paid diffusion index decreased 3 points and remains well below readings over the past two and a half years. The current prices received index, reflecting the manufacturers' own prices, increased 4 points to a reading of 13.0 but is also still well below readings of the past few years.

Firms Expect Own Prices to Match the Rate of 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 2.0 percent, lower than the 2.8 percent that was provided when the same question was last asked in May. The firms' actual price change over the past year was 2.5 percent. The firms expect their employee compensation costs (wages plus benefits per employee) 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 2.0 percent, a decrease from 2.5 percent in the previous quarter. The firms' median forecast for the long-run (10-year

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average) inflation rate also decreased, from 2.5 percent to 2.2 percent.

Firms Remain Generally Optimistic

The diffusion index for future general activity fell 5 points to 32.6, after increasing 17 points in July (see Chart). Over 46 percent of the firms expect increases in activity over the next six months, while 14 percent expect declines. The future new orders index decreased 2 points, while the future shipments index increased 2 points. The future employment index was essentially unchanged from the previous month, as firms remained optimistic about future hiring: Thirty-one percent of the firms expect higher employment over the next six months. The firms were less optimistic about future capital spending this month: The future capital spending index decreased 14 points to its lowest reading in five months.

Summary

Responses to the August *Manufacturing Business Outlook Survey* suggest growth in manufacturing activity this month. The new orders index, which reflects demand for manufactured goods, showed some improvement this month, but the indicators for general activity, shipments, and employment decreased from last month's readings. The survey's future indexes indicate that respondents continue to expect growth over the next six months.

Special Questions (August 2019)		
Please list the annual percent change with respect to the following:		
	Current	**Previous (May 2019)**
For your firm:		
Forecast for next year (2019Q3–2020Q3)		
1. Prices your firm will receive (for its own goods and services sold).	**2.0**	**2.8**
2. Compensation your firm will pay per employee (for wages and benefits).	**3.0**	**3.0**
Last year's price change (2018Q3–2019Q3)		
3. Prices your firm did receive (for its own goods and services sold) over the last year.	**2.5**	–
For U.S. consumers:		
4. Prices consumers will pay for goods and services over the next year.	**2.0**	**2.5**
5. Prices U.S. consumers will pay for goods and services over the next 10 years (2019–2028).	**2.2**	**2.5**
The numbers represent medians of the individual forecasts (percent changes). For question 5, the firms reported a 10-year annual-average change.		

MANUFACTURING BUSINESS OUTLOOK SURVEY August 2019	**August vs. July**					**Six Months from Now vs. August**				
	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?	**21.8**	37.2	41.1	20.5	**16.8**	**38.0**	46.3	33.3	13.7	**32.6**
Company Business Indicators										
New Orders	**18.9**	41.4	41.6	15.6	**25.8**	**45.7**	51.9	34.9	7.8	**44.1**
Shipments	**24.9**	37.8	43.4	18.8	**19.0**	**41.3**	52.7	34.1	9.2	**43.5**
Unfilled Orders	**3.7**	19.2	68.8	10.1	**9.1**	**7.7**	19.8	63.9	11.8	**8.0**
Delivery Times	**15.0**	15.2	76.0	5.9	**9.3**	**6.2**	12.3	68.7	10.8	**1.5**
Inventories	**8.1**	27.2	50.2	18.5	**8.7**	**2.3**	26.3	50.1	15.2	**11.0**
Prices Paid	**16.1**	24.8	61.1	12.0	**12.8**	**35.3**	46.7	38.8	7.7	**39.0**
Prices Received	**9.5**	16.2	79.3	3.2	**13.0**	**34.1**	33.6	54.0	5.9	**27.8**
Number of Employees	**30.0**	24.5	54.6	20.9	**3.6**	**24.9**	31.3	57.6	6.3	**25.0**
Average Employee Workweek	**23.0**	23.0	56.3	16.2	**6.8**	**7.9**	16.6	70.3	8.9	**7.7**
Capital Expenditures	**--**	--	--	--	**--**	**36.9**	30.2	57.0	7.6	**22.6**

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 August 12, 2019.