



# BUSINESS OUTLOOK SURVEY

February 2014

Manufacturing activity was reduced in February, according to firms responding to this month's *Business Outlook Survey*. The survey's broadest indicators for general activity, new orders, and shipments suggest moderate declines this month, but comments suggested that much of the weakness was attributable to the severe winter weather that affected the region during the survey period. Firms continued to add to their payrolls, but average work hours fell. Despite the weakness in current indicators, many of the survey's indicators of future activity improved this month, reflecting optimism about continued growth over the next six months.

## Indicators Suggest Reduced Activity This Month

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from a reading of 9.4 in January to -6.3 this month (see Chart). This was the first negative reading of the index in nine months. The current shipments and new orders indexes also weakened this month. The demand for manufactured goods, as measured by the current new orders index, decreased from a reading of 5.1 to -5.2 this month. Shipments also fell, with its index falling 22 points to a reading of -9.9. Firms reported longer delivery times and an increase in inventories.

Labor market indicators were mixed this month. The current employment index remained positive for the eighth consecutive month but declined 5 points from January. More firms (21 percent) reported increases in employment than reported decreases (16

percent). Firms reported reduced work hours; however, the average workweek index remained negative for the second consecutive month, with more than one-fifth of the firms reducing work hours.

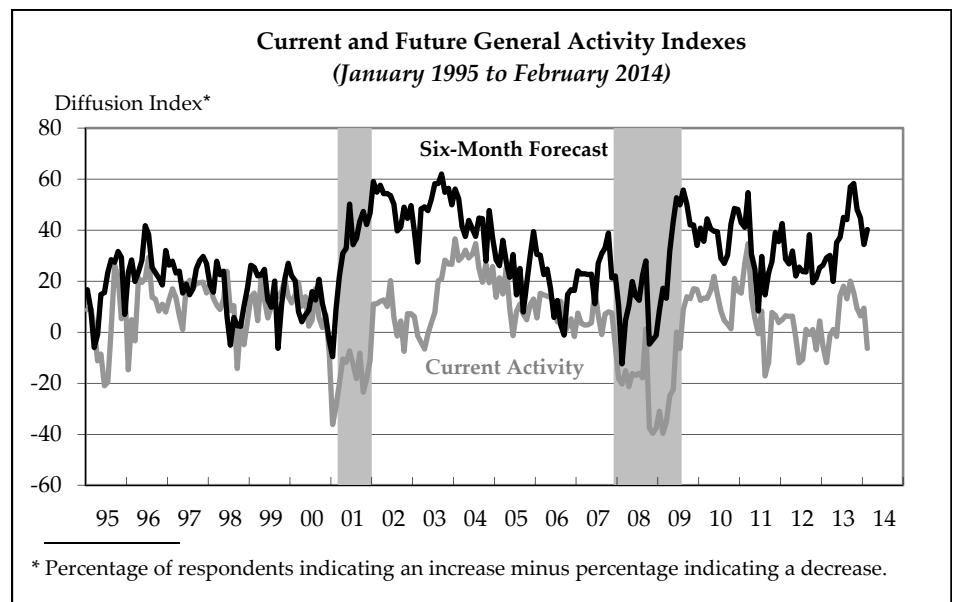
Cost increases were slightly less widespread this month among reporting firms: The prices paid index decreased 5 points, to 14.2. But with respect to firms' own manufactured goods, price increases were slightly more widespread this month: The prices received index increased 3 points, to 7.6.

## First Quarter Production Will Increase Modestly

In supplemental questions this month, firms were asked about the state of underlying demand for their manufactured goods (excluding seasonal effects) since the beginning of the year (see Special Questions). Over 45 percent of the firms characterized the demand as increasing, while 19 percent indicated it was decreasing. The largest per-

centage (43 percent) indicated that demand had increased modestly. Firms were also asked to provide estimates of production growth for the first quarter. Significantly more firms indicated that production would increase in the first quarter (55 percent) than indicated it would decrease (28 percent), and the average growth for the reporting firms was 0.5 percent. Over half of the firms indicated that production growth would represent an acceleration compared with the fourth quarter.

Firms also remain optimistic about the growth of overall manufacturing activity for the next six months. This month, the future general activity index increased 6 points, from a relatively high reading of 34.4 in January, to 40.2 (see Chart). Indexes for future new orders and shipments also remained at relatively high levels, with nearly half of the



Released: February 20, 2014, 10:00 a.m. ET.  
The March *Business Outlook Survey* will be released on March 20, 2014, at 10:00 a.m.

firms expecting increases in both over the next six months. The future employment index was virtually unchanged at 16.5, with nearly 27 percent of the firms expecting increased employment over the next six months.

### Summary

The February *Business Outlook Survey* suggests that activity in the region's manufacturing sector decreased moderately this month, which was mostly attributable to the winter storms that blanketed much of the region during the first few weeks of the month. Firms reported decreases in overall activity, new orders, shipments, and average work hours in February. But overall, employment among the firms continued to increase, and firms expect production to rise modestly during the first quarter. The survey's future activity indexes indicate that firms expect continued growth over the next six months.

<b>Special Questions (February 2014)</b>		
1. Since the beginning of the year, how would you characterize the underlying demand for your manufactured products? Exclude any purely seasonal effect.		
Increase significantly	2.7%	Total Increase: 45.4%
Increase modestly	42.7%	
No change	34.7%	
Decrease modestly	13.3%	Total Decrease: 18.7%
Decrease significantly	5.4%	
2. What change, if any, do you anticipate in your firm's production during the first quarter of 2014 compared with the fourth quarter of last year?		
Increase of more than 4%	14.6%	Total Increase: 54.7%
Increase of 2-4%	18.7%	
Increase of less than 2%	21.4%	
No change	14.7%	
Decrease of less than 2%	4.1%	Total Decrease: 28.0%
Decrease of 2-4%	9.3%	
Decrease of more than 4%	14.6%	
Average expected growth for all firms: 0.5%		
Average expected growth for firms attributing growth to seasonal factors*: -0.2%		
3. Would this represent an acceleration or deceleration from the fourth quarter?		
Significant acceleration	12.0%	Acceleration: 53.3%
Some acceleration	41.3%	
No change	14.7%	
Some deceleration	25.3%	Deceleration: 29.3%
Significant deceleration	4.0%	
*Calculation based on responses to separate question about whether expected change was due to seasonal factors, change in business conditions, or other factors.		
Percentages may not add up to 100 percent because not all firms answered all questions.		

<b>BUSINESS OUTLOOK SURVEY February 2014</b>	February vs. January					Six Months from Now vs. February				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>
What is your evaluation of the level of general business activity?	<b>9.4</b>	25.1	42.9	31.4	<b>-6.3</b>	<b>34.4</b>	51.3	34.3	11.1	<b>40.2</b>
Company Business Indicators										
New Orders	<b>5.1</b>	23.9	46.9	29.1	<b>-5.2</b>	<b>38.4</b>	47.5	36.4	12.1	<b>35.4</b>
Shipments	<b>12.1</b>	25.6	37.5	35.5	<b>-9.9</b>	<b>33.2</b>	49.8	33.2	13.7	<b>36.0</b>
Unfilled Orders	<b>-1.0</b>	19.7	54.9	22.3	<b>-2.6</b>	<b>11.3</b>	19.2	65.5	12.6	<b>6.7</b>
Delivery Times	<b>-2.8</b>	16.3	67.6	13.4	<b>2.9</b>	<b>-10.6</b>	12.5	72.8	12.8	<b>-0.3</b>
Inventories	<b>-19.6</b>	20.0	54.7	16.5	<b>3.6</b>	<b>-0.2</b>	26.4	48.6	21.7	<b>4.6</b>
Prices Paid	<b>18.7</b>	24.3	65.5	10.1	<b>14.2</b>	<b>35.3</b>	25.7	59.2	7.5	<b>18.2</b>
Prices Received	<b>5.1</b>	12.8	78.7	5.2	<b>7.6</b>	<b>11.8</b>	22.7	69.3	6.4	<b>16.3</b>
Number of Employees	<b>10.0</b>	21.1	56.9	16.3	<b>4.8</b>	<b>17.5</b>	26.5	60.2	10.0	<b>16.5</b>
Average Employee Workweek	<b>-5.3</b>	14.7	55.4	21.7	<b>-7.0</b>	<b>5.5</b>	24.3	49.8	23.2	<b>1.1</b>
Capital Expenditures	--	--	--	--	--	<b>15.1</b>	27.5	62.8	7.6	<b>19.9</b>

#### NOTES:

- (1) Items may not add up to 100 percent because of omission by respondents.
- (2) All data are seasonally adjusted.
- (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.
- (4) Survey results reflect data received through February 18, 2014.