

May 2017

Results from the May *Manufacturing Business Outlook Survey* suggest that regional manufacturing activity continued to expand this month. The diffusion indexes for general activity and shipments improved notably from their April readings. The indexes for new orders and employment, however, fell modestly from last month but remained at high readings. Although most of the survey's future indicators fell this month, the readings suggest that most firms still expect growth to continue over the next six months.

### Current Indicators Reflect Continued Growth

The index for current manufacturing activity in the region increased from a reading of 22.0 in April to 38.8 this month. The index has been positive for 10 consecutive months. This month, the index recovered some of the declines of the previous two months, but it still remains slightly below its high reading of 43.3 in February (see Chart 1). Fifty-one percent of the firms indicated increases in activity in May, while 13 percent reported decreases. The current new orders and shipments indexes remained at high readings. The shipments index increased 16 points, while the new orders index declined 2 points. Both the delivery times and unfilled orders indexes were positive for the seventh consecutive month, suggesting longer delivery times and increases in unfilled orders.

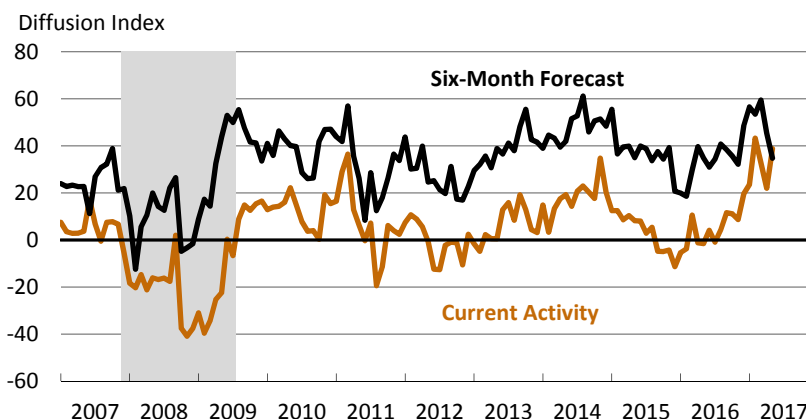
Firms reported an increase in manufacturing employment this month, but the current employment index fell 3 points. The index has remained positive for six consecutive months. The percentage of firms reporting an increase in employment was 23 percent, lower than the 27 percent that reported increases in April. Firms also reported an increase in work hours this month: The average workweek index remained positive for the seventh consecutive month and increased 3 points.

### Price Pressures Moderate

The survey's diffusion indexes for prices remained positive but decreased from their readings in April. On the cost side, 31 percent of the firms reported increases in the prices paid for inputs, compared with 36 percent in April, and the prices paid index decreased 10 points to 24.2. With respect to prices received for firms' own manufactured goods, 21 percent of the firms reported higher prices, and 6 percent reported lower prices. The prices received index decreased 1 point.

**Chart 1. Current and Future General Activity Indexes**

January 2007 to May 2017



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 Growth, but Optimism Falls

Most of the survey's six-month indicators decreased further from the higher readings seen at the beginning of the year. The diffusion index for future general activity decreased from 45.4 in April to 34.8 this month, its second consecutive decline (see Chart 1). Forty-five percent of the manufacturers expect increases in activity over the next six months, while 10 percent expect declines. The indexes for future new orders and shipments also fell, decreasing 9 points and 6 points, respectively. The future employment diffusion index, at 29.2, fell 8 points. Thirty-seven percent of the firms expect to increase employment over the next six months, down from 46 percent last month.

### Firms Expect Price Increases for Their Own Products to Match Inflation

In this month's special questions, firms were asked to forecast the changes in the prices of their own products and for U.S. consumers over the next four quarters (see Special Questions). The median forecast was for an increase in their own prices of 2.0 percent, the same as when the question was last asked in February of 2017. 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 the previous forecast of 2.2 percent in February.

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The June 2017 *Manufacturing Business Outlook Survey* will be released on June 15, 2017, at 8:30 a.m. ET.



Firms expect their employee compensation costs (wages plus benefits on a per employee basis) to rise at a pace of 3.0 percent over the next four quarters. Firms' forecast for the long-run (10-year average) inflation rate fell from 3.0 percent to 2.5 percent this quarter.

### Summary

Responses to the May *Manufacturing Business Outlook Survey* suggest continued growth for the region's manufacturing sector. All the broad indicators either improved or remained at high positive readings, suggesting continued expansion. The survey's employment indexes continued to show a rise in overall employment and work hours. The indicators reflecting firms' expectations for the next six months, however, continued to retreat from recent highs but on balance suggest that growth is still expected to continue. ■

Special Questions (May 2017)		
<b>Over the next year (2017:Q2 to 2018:Q2), please list your expected annual percent change with respect to the following:</b>		
	<b>Current Forecast*</b>	Previous Forecast (February 2017)
<b>1. For your firm:</b>		
Prices your firm will receive (for its own goods and services sold).	<b>2.0</b>	2.0
Compensation your firm will pay per employee (for wages and benefits).	<b>3.0</b>	3.0
<b>2. For your employees:</b>		
Prices your employees will pay (for goods and services where they live).	<b>2.0</b>	2.0
<b>3. For U.S. consumers:</b>		
Prices U.S. consumers will pay (for goods and services).	<b>2.0</b>	2.2
<b>For the next 10 years (2017 through 2026), what is your expected annual average percent change with respect to the following:</b>		
<b>4. For U.S. consumers:</b>		
Prices U.S. consumers will pay (for goods and services).	<b>2.5</b>	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.		

MANUFACTURING BUSINESS OUTLOOK SURVEY May 2017	May vs. April					Six Months from Now vs. May				
	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?	<b>22.0</b>	51.3	35.5	12.5	<b>38.8</b>	<b>45.4</b>	45.0	32.6	10.2	<b>34.8</b>
Company Business Indicators										
New Orders	<b>27.4</b>	40.9	42.2	15.5	<b>25.4</b>	<b>55.9</b>	54.7	33.3	7.5	<b>47.2</b>
Shipments	<b>23.4</b>	48.4	42.4	9.2	<b>39.1</b>	<b>44.7</b>	48.8	37.5	10.2	<b>38.5</b>
Unfilled Orders	<b>6.6</b>	23.9	59.2	14.9	<b>9.0</b>	<b>22.2</b>	23.0	58.7	11.5	<b>11.5</b>
Delivery Times	<b>13.2</b>	13.2	75.6	6.9	<b>6.4</b>	<b>4.5</b>	17.7	67.5	9.9	<b>7.8</b>
Inventories	<b>17.8</b>	16.0	69.2	14.6	<b>1.4</b>	<b>12.1</b>	30.1	44.0	22.7	<b>7.4</b>
Prices Paid	<b>33.7</b>	30.5	60.4	6.2	<b>24.2</b>	<b>34.7</b>	45.9	47.5	3.2	<b>42.7</b>
Prices Received	<b>16.6</b>	21.3	72.6	6.0	<b>15.3</b>	<b>28.6</b>	26.2	64.3	3.2	<b>22.9</b>
Number of Employees	<b>19.9</b>	23.2	68.0	5.9	<b>17.3</b>	<b>37.6</b>	37.1	53.1	7.9	<b>29.2</b>
Average Employee Workweek	<b>18.9</b>	25.6	67.6	3.9	<b>21.7</b>	<b>15.6</b>	13.9	67.5	13.6	<b>0.3</b>
Capital Expenditures	--	--	--	--	--	<b>36.5</b>	37.8	49.7	5.1	<b>32.6</b>
<b>NOTES:</b>										
(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 May 15, 2017.										

