



BUSINESS OUTLOOK SURVEY

December 2013

Manufacturing growth in the region continued in December at a pace similar to that of November, according to firms responding to this month's *Business Outlook Survey*. The survey's broadest indicators for general activity, new orders, shipments, and employment were positive, signifying growth, and readings improved slightly in each category from November. The survey's indicators of future activity moderated slightly but continue to suggest general optimism about growth over the next six months.

Indicators Suggest Modest Expansion

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, was relatively unchanged from November to December, at 7.0 (see Chart). The index has now been positive for seven consecutive months. The percentage of firms reporting increased activity this month (29 percent) was greater than the percentage reporting decreased activity (22 percent).

Both the current shipments and new orders indexes increased this month after falling in November. The demand for manufactured goods, as measured by the current new orders index, increased 4 points, to 15.4. Shipments continued to expand, and its index rose 8 points, to 13.3.

Labor market indicators showed little improvement this month. The current employment index edged up 1 point from its reading in November, to 2.2. Seventeen percent of the firms reported increases in employment, compared with 13 percent last month. Firms, on balance, reported an in-

crease in work hours, with the workweek index rebounding to 6.8 from -8.6 last month.

Cost pressures moderated somewhat this month among reporting firms: The prices paid index decreased 10 points, to 20.1. With respect to prices received for manufactured goods, 17 percent of the firms reported higher prices, and 4 percent reported lower prices. The prices received index increased 3 points, to 12.9.

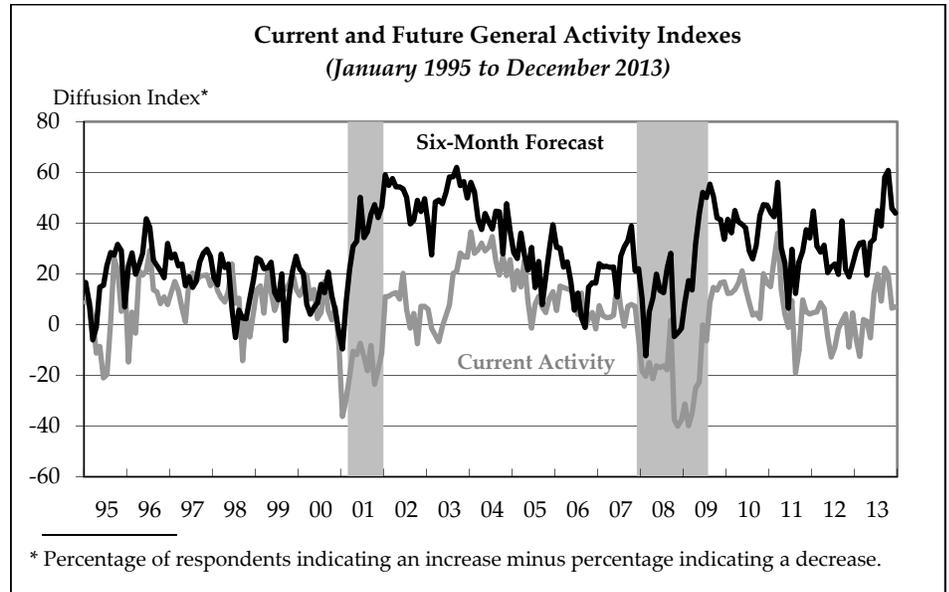
Six-Month Indicators Moderate

The survey's future indicators have moderated in the past two months from their recent high in October but continue to suggest optimism among firms. The future general activity index edged down 2 points, to 44.0 (see Chart). Nearly 57 percent of the firms expect increases in activity over the next six months, whereas 13 percent of the firms indicated that they expect decreases

over the next six months. The indexes for future new orders and shipments remained at relatively high levels but also edged down 3 points and 1 point, respectively. The future employment index fell 11 points but remained positive at 16.0, with nearly 27 percent of the firms expecting to increase employment over the next six months.

Input and Labor Cost Expectations

In this month's special questions, firms were asked about their expectations for changes in various input and labor costs for the coming year (see Special Questions). Similar to responses in previous years, cur-



rent responses indicate that the largest annual increase is expected to be for health benefits (7.9 percent). In contrast, other labor costs (wages and non-health-care benefits) are expected to rise only 2.3 percent and 1.9 percent, respectively. Firms were also asked how the expected cost increases will compare with 2013 costs. In every category, the share of firms indicating that their costs would be higher in 2014 was greater than the share reporting that their costs would be lower.

Summary

According to respondents to the December *Business Outlook Survey*, the region's manufacturing sector continued to grow this month. Most broad indicators were little changed from the preceding month. Firms remained optimistic about future growth, although future indicators moderated slightly from readings in November.

Special Questions (December 2013)						
1. What percentage change in costs do you expect for the following categories in 2014?						
	Energy	Other Raw Materials	Intermediate Goods	Wages	Health Benefits	Nonhealth Benefits
Decline of more than 4%	2.7%	1.4%	0.0%	0.0%	2.7%	0.0%
Decline of 3-4%	4.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Decline of 2-3%	5.4%	4.1%	1.4%	0.0%	0.0%	1.4%
Decline of 1-2%	5.4%	2.7%	1.4%	0.0%	4.1%	1.4%
No Change	29.7%	16.2%	24.3%	12.2%	8.1%	32.4%
Increase of 1-2%	21.6%	18.9%	23.0%	18.9%	1.4%	13.5%
Increase of 2-3%	9.5%	29.7%	24.3%	47.3%	6.8%	21.6%
Increase of 3-4%	8.1%	12.2%	12.2%	18.9%	6.8%	13.5%
Increase of 4-5%	9.5%	9.5%	8.1%	0.0%	2.7%	8.1%
Increase of 5-7.5%	2.7%	1.4%	1.4%	0.0%	14.9%	5.4%
Increase of 7.5-10%	0.0%	1.4%	0.0%	1.4%	13.5%	0.0%
Increase of 10-12.5%	0.0%	1.4%	0.0%	0.0%	10.8%	0.0%
Increase of 12.5-15%	0.0%	0.0%	0.0%	0.0%	5.4%	0.0%
Increase of more than 15%	0.0%	0.0%	0.0%	0.0%	20.3%	0.0%
Avg. Expected Change	1.0	2.1	1.8	2.3	7.9	1.9
2. How do these expected costs compare with those in 2013?						
<i>Higher</i>	28.4%	40.5%	25.7%	43.2%	66.2%	17.6%
<i>Same</i>	52.7%	50.0%	60.8%	50.0%	20.3%	70.3%
<i>Lower</i>	16.2%	8.1%	6.8%	4.1%	12.2%	5.4%
* Percentages may not add to 100 percent because some reporters did not respond to the questions.						

BUSINESS OUTLOOK SURVEY December 2013	December vs. November					Six Months from Now vs. December				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	6.5	29.2	42.9	22.2	7.0	45.8	56.5	28.2	12.6	44.0
Company Business Indicators										
New Orders	11.8	35.4	43.3	20.0	15.4	47.5	55.5	31.5	10.5	45.0
Shipments	5.6	36.4	40.5	23.1	13.3	42.7	55.4	26.3	13.7	41.7
Unfilled Orders	-4.2	19.3	54.9	24.3	-5.0	14.3	26.6	52.7	15.2	11.3
Delivery Times	3.2	11.0	67.7	20.0	-9.0	3.5	16.5	64.4	13.8	2.7
Inventories	15.3	27.2	60.5	12.3	14.8	4.5	24.9	51.9	23.2	1.7
Prices Paid	29.9	25.4	69.0	5.4	20.1	46.9	46.0	44.4	2.3	43.7
Prices Received	10.0	16.8	78.7	3.9	12.9	38.4	38.9	54.9	5.2	33.6
Number of Employees	1.1	17.0	64.2	14.8	2.2	26.9	27.3	52.3	11.3	16.0
Average Employee Workweek	-8.6	25.2	52.3	18.4	6.8	17.2	24.6	58.4	14.9	9.6
Capital Expenditures	--	--	--	--	--	17.2	19.6	62.3	12.6	7.0

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 December 16, 2013.