

January 2015

Manufacturing activity in the region increased modestly in January, according to firms responding to this month's *Manufacturing Business Outlook Survey*. The survey's current indicators for general activity and new orders fell from their readings in December, suggesting a slower pace of growth. Firms reported continued moderation in price pressures, attributable to lower energy costs. Overall, firms reported that lower energy prices were having overall net positive effects on manufacturing business. The survey's indicators of future activity show continued optimism about continued growth over the next six months.

### Indicators Suggest Slower Pace of Growth

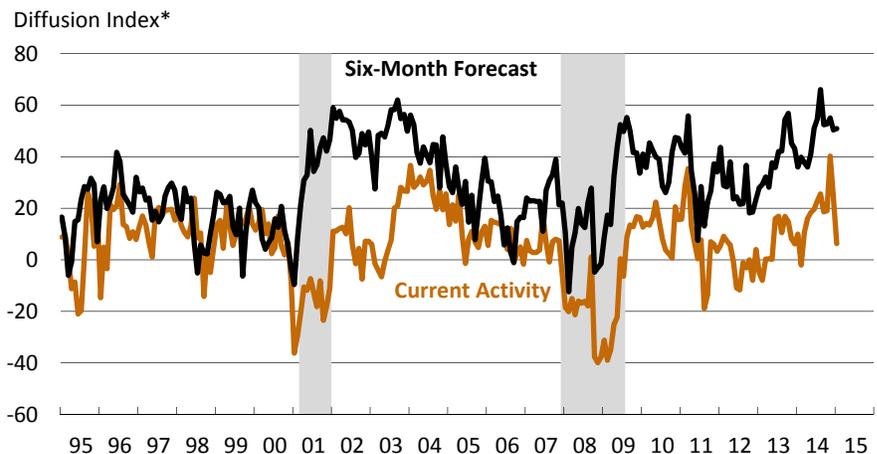
The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased 18 points, from a revised reading of 24.3 in December to 6.3 this month (see Chart 1).<sup>\*</sup> Demand for manufactured goods, as measured by the current new orders index, decreased 5 points, from a revised reading of 13.6 last month to 8.5 this month. Shipments also fell, with its index falling 22 points to -6.9, its first negative reading since February 2014. Firms reported shorter delivery times and a decrease in unfilled orders this month, on balance.

Firms' responses suggest weaker labor market conditions in January. The percentage of firms reporting a decrease in employees (15 percent) exceeded the percentage reporting an increase (13 percent) for the first time in 19 months. The current employment index fell 10 points, from 8.4 to -2.0. Firms also reported reductions in the workweek: The percentage of firms reporting a shorter workweek (23 percent) was greater than the percentage reporting a longer workweek (16 percent).

### Firms Report Continued Moderation in Input Prices

Input price pressures continued to decline for reporting manufacturers: The prices paid index fell 5 points to 9.8 in January and has now declined 15 points over the past three months (see Chart 2). Most firms (68 percent) reported that input prices were unchanged. With respect to prices received for manufactured goods, nearly the same percentage of firms reported price

**Chart 1. Current and Future General Activity Indexes**  
(January 1995 to January 2015)



\* Percentage of respondents indicating an increase minus percentage indicating a decrease.

reductions (8 percent) as reported price increases (8 percent). The prices received index fell 10 points to just below zero, its lowest reading in 21 months. The largest percentage of firms (84 percent) reported no change in manufactured good prices.

### Most Future Indicators Remain at High Levels

The diffusion index for future activity edged up by less than 1 point, to 50.9, in January and has remained near its current level over the past five months (see Chart 1). The future index for new orders held steady, but the future shipments index fell 7 points. More than 52 percent of the firms are expecting no change in their employment levels over the next six months, while the percentage expecting increases (33 percent) was substantially greater than the percentage expecting employment

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The February 2015 *Manufacturing Business Outlook Survey* will be released on February 19, 2015, at 10:00 a.m. ET.

\* The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on January 8, 2015. The full set of revised historical data is available at [www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/historical-data/revisions/historical-revisions-2015.cfm](http://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/historical-data/revisions/historical-revisions-2015.cfm).

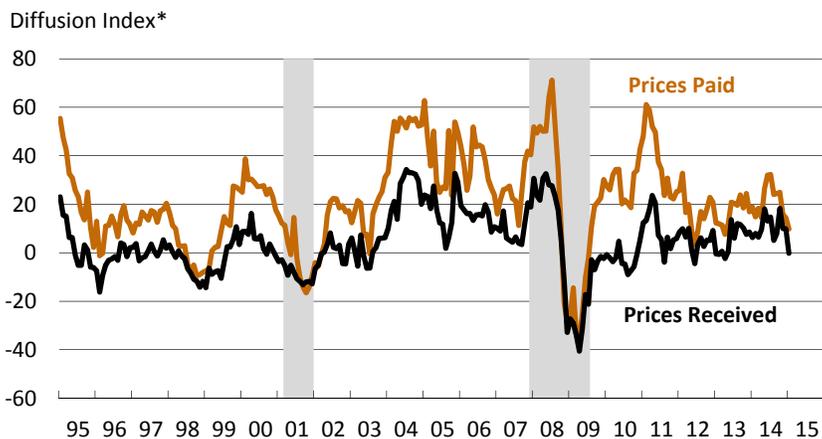


decreases (8 percent). The future employment index decreased slightly, from a revised reading of 24.9 in December to 24.0 in January.

### Energy Price Reductions Are Having a Net Positive Effect

In this month's special questions, firms were asked about the effects of lower oil prices on manufacturing business (see Special Questions, page 3). The responses indicate that the effects have been positive for most firms. Nearly 63 percent of the firms reported positive effects, while 16 percent reported negative effects. The largest percentage (39 percent) characterized the effect as slightly positive. The most frequently cited impact was that falling energy prices were lowering the costs of production (57 percent of the firms). For 23 percent of the firms, energy cost reductions were increasing sales margins. On the negative side, nearly one-third of the firms indicated they had experienced declines in business from energy production-related customers, but 10 percent reported demand increases from non-energy-related customers. With regard to the firms' own expectations for energy prices over the next six months, firms were evenly divided about whether there would be an increase or decrease in future demand for their manufactured products.

**Chart 2. Current Prices Paid and Prices Received Indexes**  
(January 1995 to January 2015)



\* Percentage of respondents indicating an increase minus percentage indicating a decrease.

### Summary

The *Manufacturing Business Outlook Survey* suggests a slower pace of expansion of the region's manufacturing sector in January. The indicators for general activity and new orders both suggest moderating growth. Firms reported an overall reduction in shipments and labor usage for January. Respondents also indicated that price pressures were reduced and that lower energy prices are having net beneficial effects. Firms remain optimistic about increases in overall business and employment over the next six months. ■

| MANUFACTURING<br>BUSINESS OUTLOOK SURVEY<br>January 2015           | January vs. December           |          |              |          |                    | Six Months from Now vs. January |          |              |          |                    |
|--|--------------------------------|----------|--------------|----------|--------------------|---------------------------------|----------|--------------|----------|--------------------|
|  | Previous<br>Diffusion<br>Index | Increase | No<br>Change | Decrease | Diffusion<br>Index | Previous<br>Diffusion<br>Index  | Increase | No<br>Change | Decrease | Diffusion<br>Index |
| What is your evaluation of the level of general business activity? | <b>24.3</b>                    | 31.9     | 42.5         | 25.6     | <b>6.3</b>         | <b>50.4</b>                     | 62.6     | 24.7         | 11.8     | <b>50.9</b>        |
| Company Business Indicators  |                                |          |              |          |                    |                                 |          |              |          |                    |
| New Orders   | <b>13.6</b>                    | 30.8     | 45.9         | 22.3     | <b>8.5</b>         | <b>44.8</b>                     | 54.8     | 33.6         | 9.9      | <b>44.8</b>        |
| Shipments  | <b>15.1</b>                    | 22.4     | 45.2         | 29.3     | <b>-6.9</b>        | <b>47.5</b>                     | 51.1     | 37.6         | 10.3     | <b>40.8</b>        |
| Unfilled Orders  | <b>2.7</b>                     | 13.7     | 63.4         | 22.3     | <b>-8.6</b>        | <b>17.4</b>                     | 21.6     | 57.1         | 11.9     | <b>9.7</b>         |
| Delivery Times   | <b>-0.2</b>                    | 8.4      | 71.7         | 19.4     | <b>-11.0</b>       | <b>3.7</b>                      | 15.8     | 71.1         | 7.7      | <b>8.1</b>         |
| Inventories  | <b>7.3</b>                     | 18.7     | 56.4         | 19.4     | <b>-0.7</b>        | <b>11.8</b>                     | 23.7     | 52.0         | 16.5     | <b>7.2</b>         |
| Prices Paid  | <b>14.4</b>                    | 20.4     | 67.7         | 10.6     | <b>9.8</b>         | <b>22.3</b>                     | 30.4     | 56.7         | 4.4      | <b>26.0</b>        |
| Prices Received  | <b>9.8</b>                     | 7.7      | 84.3         | 7.9      | <b>-0.2</b>        | <b>20.6</b>                     | 28.0     | 61.8         | 7.3      | <b>20.7</b>        |
| Number of Employees  | <b>8.4</b>                     | 13.1     | 71.7         | 15.1     | <b>-2.0</b>        | <b>24.9</b>                     | 32.8     | 52.3         | 8.8      | <b>24.0</b>        |
| Average Employee Workweek  | <b>4.1</b>                     | 16.3     | 60.3         | 23.0     | <b>-6.7</b>        | <b>16.4</b>                     | 22.3     | 59.7         | 9.2      | <b>13.0</b>        |
| Capital Expenditures   | --                             | --       | --           | --       | --                 | <b>24.8</b>                     | 23.0     | 59.4         | 9.8      | <b>13.2</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 January 13, 2015.

## Special Questions (January 2015)

➤ In 2014, crude oil prices fell from about \$100 per barrel to nearly \$55 per barrel.

1. Overall, what impacts have falling energy prices had on your business? (Choose only one)

|                   | Percentages | Totals |
|-------------------|-------------|--------|
| Strongly positive | 10.0        | 62.9   |
| Modestly positive | 14.3        |        |
| Slightly positive | 38.6        |        |
| No impact         | 15.7        | 15.7   |
| Slightly negative | 4.3         |        |
| Modestly negative | 4.3         |        |
| Strongly negative | 7.1         |        |
| Unsure            | 5.7         |        |

2. Impacts of changing energy prices manifest themselves in multiple ways.  
Falling energy prices have: (Choose all that apply)\*

|  | Percentages |
|--|-------------|
| Decreased demand from our energy production-related customers    | 32.9        |
| Increased demand from our nonenergy production-related customers | 10.0        |
| Lowered our firm's cost of production                            | 57.1        |
| Lowered our firm's revenues                                      | 10.0        |
| Increased our sales margins                                      | 22.9        |
| Decreased our sales margins                                      | 5.7         |
| No effect  | 27.1        |
| Other  | 2.9         |

3. Based on your assumptions about energy prices for the next six months, you expect overall demand for your products to: (Choose only one)

|                        | Percentages | Totals |
|------------------------|-------------|--------|
| Increase significantly | 0.0         | 28.5   |
| Increase modestly      | 11.4        |        |
| Increase slightly      | 17.1        |        |
| Be unaffected          | 31.4        | 28.5   |
| Decrease slightly      | 15.7        |        |
| Decrease modestly      | 7.1         |        |
| Decrease significantly | 5.7         |        |
| Unsure                 | 11.4        |        |

\*Percentages for Question 2 do not add up to 100 percent because of individual firms selecting multiple responses.

