

December 2016

Activity picked up in December, according to the firms responding to this month's *Manufacturing Business Outlook Survey*. The indexes for general activity, shipments, and employment were all positive this month and increased from their readings last month. Manufacturers were much more optimistic about growth over the next six months. The indexes for future employment and capital spending also showed a notable rise.

### Most Current Indicators Show Improvement

The index for current manufacturing activity in the region increased from a reading of 7.6 in November to 21.5 this month. Nearly 34 percent of the firms reported increases in activity this month, compared with 24 percent last month. The general activity index has remained positive for five consecutive months, and the activity index reading was the highest since November 2014 (see Chart 1). The current new orders and shipments indexes remained positive, reflecting continued growth. The shipments index increased 3 points, while the new orders index fell 5 points. Both the delivery times and unfilled orders indexes were positive for the second consecutive month, suggesting longer delivery times and an increase in unfilled orders.

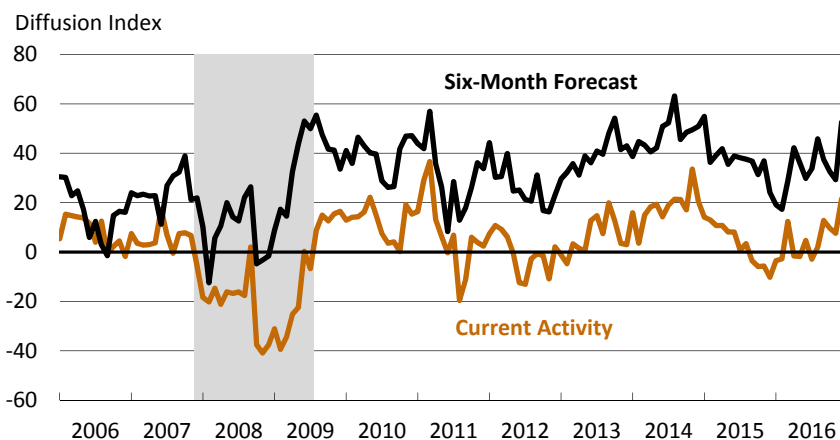
Firms reported an increase in manufacturing employment and work hours this month. The percentage of firms reporting an increase in employment (17 percent) exceeded the percentage reporting a decrease (11 percent). The current employment index improved 9 points, its first positive reading in 12 months. Firms also reported an increase in work hours this month: The average workweek index, which increased 2 points, has now been positive for two consecutive months.

### Firms Report Cost Increases

Firms reported increases in the prices paid for inputs. The prices paid index increased 2 points following a 21 point increase last month (see Chart 2). Thirty percent of the firms reported higher input prices this month. Most firms (66 percent), however, reported that input prices were unchanged. With respect to prices received for firms' own manufactured goods, the percentage of firms reporting higher prices (16 percent) remained higher than the percentage reporting lower prices (10 percent), but the index for current prices received fell 10 points.

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

January 2006 to December 2016



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.

### Six-Month Indexes Increase Prominently

The diffusion index for future general activity increased from a reading of 29.3 in November to 52.6 this month. The index is now at its highest reading since January 2015 (see Chart 1). Nearly 58 percent of the firms now expect increases in activity over the next six months, compared with 36 percent last month. Indexes for future new orders and shipments also showed notable improvement this month, increasing 14 points and 22 points, respectively. In addition, firms marked up their forecasts for employment increases. The future employment diffusion index increased 16 points. Almost 35 percent of the firms expect increases in employment over the next six months, up from 25 percent in November. A notable share of firms (43 percent) indicated that they will increase capital spending over the next six months, and the future capital spending diffusion index increased 15 points.

Released: December 15, 2016, 8:30 a.m. ET.

The January 2017 *Manufacturing Business Outlook Survey* will be released on January 19, 2017, at 8:30 a.m. ET.

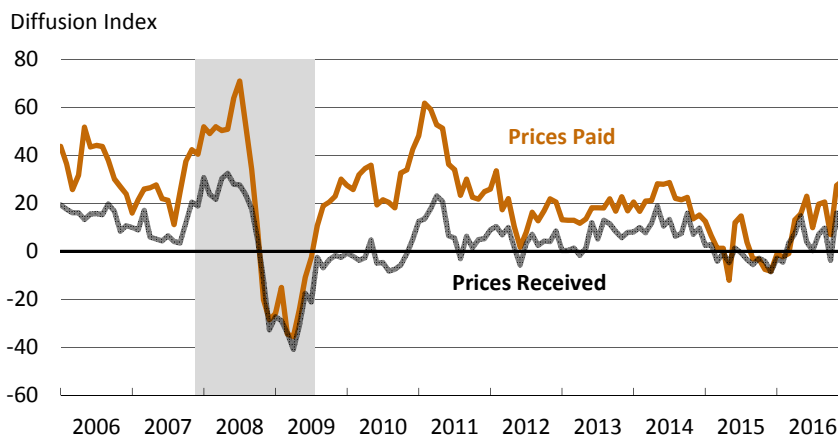
The survey's annual historical revisions, which incorporate new seasonal adjustment factors, will be released on Thursday, January 12, 2017, at 8:30 a.m. ET.



## Higher Health-Care Costs Are Expected

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 on page 3). The responses indicate that the largest average annual increase is expected to be for health benefits (8 percent). Both wages and nonhealth benefits are expected to rise more than 2 percent. The costs of raw materials and energy are expected to increase by an average of 2.7 percent and 1.1 percent, respectively. Firms were also asked how the expected cost increases for 2017 will compare with this year's cost changes. For all categories of expenses, the firms forecast, on balance, increases greater than in 2016.

**Chart 2. Current Prices Paid and Prices Received Indexes**  
January 2006 to December 2016



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.

## Summary

Responses to the December *Manufacturing Business Outlook Survey* suggest a pickup in growth for the region's manufacturing sector. The indexes for general activity, new orders, shipments, and employment all indicated expansion this month. Firms reported an increase in input price pressures over the past two months, but price increases for manufacturers' own goods were modest in December. Firms' optimism about future manufacturing growth improved markedly this month. Firms were much more optimistic about future employment as well as capital spending over the first half of next year. ■

MANUFACTURING BUSINESS OUTLOOK SURVEY December 2016	December vs. November					Six Months from Now vs. December				
	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?	7.6	33.7	49.4	12.2	21.5	29.3	57.9	32.0	5.3	52.6
Company Business Indicators										
New Orders	18.6	31.6	49.0	17.6	13.9	37.4	55.2	32.9	3.7	51.5
Shipments	19.5	38.5	43.0	16.5	22.0	30.2	57.1	29.5	5.2	51.9
Unfilled Orders	4.1	20.7	63.5	15.0	5.7	8.1	31.3	45.9	13.4	17.9
Delivery Times	6.1	16.3	71.0	8.7	7.6	5.4	23.5	60.3	9.3	14.2
Inventories	13.4	23.0	52.2	21.9	1.1	6.2	33.2	48.5	12.5	20.7
Prices Paid	27.5	30.2	65.6	0.8	29.4	36.7	48.2	47.3	1.2	47.1
Prices Received	16.0	15.7	71.3	9.9	5.8	31.0	38.7	42.8	8.7	30.0
Number of Employees	-2.6	17.3	69.3	10.8	6.4	11.8	34.5	51.5	7.0	27.5
Average Employee Workweek	7.4	20.4	63.0	10.6	9.8	8.1	26.9	58.7	8.5	18.4
Capital Expenditures	--	--	--	--	--	19.1	42.8	38.3	9.0	33.8
<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 December 12, 2016.										



**Special Questions (December 2016)**

## 1. What percentage change in costs do you expect for the following categories in 2017?

	Energy (%)	Other Raw Materials (%)	Intermediate Goods (%)	Wages (%)	Health Benefits (%)	Nonhealth Benefits (%)	Wages & Health Benefits & Nonhealth Benefits (%)
Decline of more than 4%	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Decline of 3–4%	0.0	0.0	0.0	0.0	1.7	0.0	0.0
Decline of 2–3%	1.7	0.0	0.0	0.0	1.7	1.7	1.7
Decline of 1–2%	8.3	3.3	0.0	1.7	3.3	1.7	0.0
No Change	36.7	21.7	22.0	8.3	8.3	32.8	1.7
Increase of 1–2%	10.0	13.3	30.5	15.0	1.7	13.8	6.8
Increase of 2–3%	16.7	26.7	27.1	58.3	5.0	19.0	16.9
Increase of 3–4%	11.7	20.0	11.9	16.7	8.3	19.0	25.4
Increase of 4–5%	8.3	1.7	6.8	0.0	8.3	5.2	15.3
Increase of 5–7.5%	0.0	5.0	0.0	0.0	16.7	3.4	8.5
Increase of 7.5–10%	0.0	6.7	1.7	0.0	10.0	0.0	11.9
Increase of 10–12.5%	1.7	1.7	0.0	0.0	13.3	0.0	5.1
Increase of 12.5–15%	0.0	0.0	0.0	0.0	8.3	0.0	1.7
Increase of 15–20%	0.0	0.0	0.0	0.0	5.0	1.7	3.4
Increase of more than 20%	0.0	0.0	0.0	0.0	8.3	1.7	1.7
<b>Median</b>	0.0	2.5	1.5	2.5	6.3	2.0	3.5
<b>Average</b>	1.1	2.7	2.0	2.2	7.9	2.4	5.4

## 2. How do these expected costs compare with those in 2016?

<i>Higher</i>	42.4	45.8	37.9	46.7	55.9	30.4	69.5
<i>Same</i>	45.8	49.2	58.6	50.0	35.6	64.3	28.8
<i>Lower</i>	11.9	5.1	3.4	3.3	8.5	5.4	1.7

