

Firms responding to the *Manufacturing Business Outlook Survey* continued to report tenuous growth this month. The indicator for general activity was essentially unchanged in May and remained slightly negative. Other broad indicators also reflected general weakness in business conditions. The indicator for employment improved but remained negative. Manufacturers' forecasts of future activity tempered slightly from last month, overall, but continue to suggest confidence in future growth.

### Current Indicators Remain Weak

The diffusion index for current activity was essentially unchanged at -1.8 this month. The index has registered a negative reading in eight of the last nine months (see Chart). The current new orders index decreased for the second consecutive month, from 0.0 to -1.9 this month. Conversely, the current shipments index rose 10 points; however, the percentage of firms reporting a decline in shipments narrowly exceeded the percentage reporting an increase. As with the other broad indicators this month, the unfilled orders and delivery time indexes both remained in negative territory. The indicator for inventories rose notably to its highest reading in nine months but still registered a negative reading.

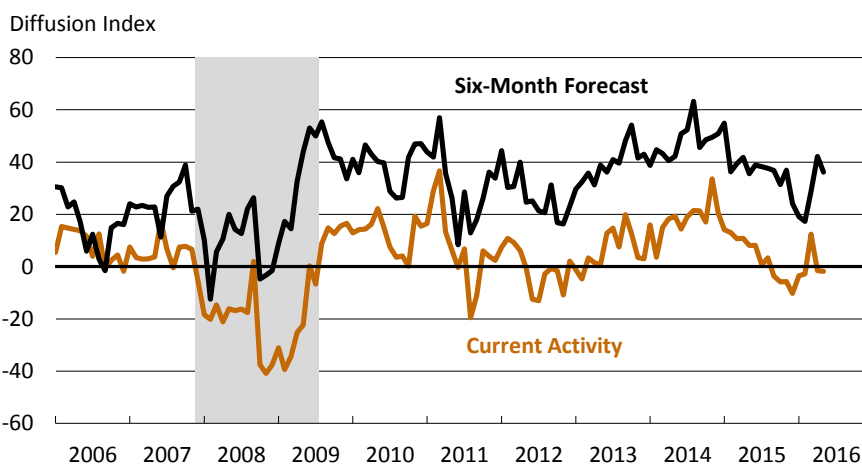
The survey's indicators of employment reflect similar weakness in May. Despite improving 15 points this month, the employment index registered its fifth consecutive negative reading, at -3.3. More than 69 percent of the firms reported no change in employment, but the percentage reporting decreases (17 percent) exceeded the percentage reporting increases (14 percent). After a sharp drop last month, the average workweek index ticked up 1 point but remained negative.

### Prices for Inputs and Goods Rise Slightly

Firms reported increases in prices for their own goods, on balance. The prices received index doubled from last month, rising to 14.8. Slightly more than 20 percent of the respondents indicated increases in prices received; however, nearly 74 percent reported no change in prices received this month. Input prices also rose, on balance, as 24 percent of the firms noted

### Current and Future General Activity Indexes

January 2006 to May 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.

increases. The prices paid index was positive for the second consecutive month, edging up from 13.2 to 15.7.

### Outlook Remains Positive

The survey's future indicators receded from last month's readings but continue to suggest that the current weakness is expected to be temporary. The diffusion index for future general activity fell from a 15-month high of 42.2 in April to 36.1 in May. Despite the decrease, the future activity index remains above lower levels from the first months of the year (see Chart). Slightly more than 47 percent of the firms expect an increase in activity over the next six months, down from 51 percent last month, while 11 percent expect a decline. The future indexes for new orders and shipments also decreased but remained elevated, falling 9 points and 3 points, respectively. The future employment index edged down 2 points, to 12.0. Similar to last month, almost 23 percent of the surveyed firms expect to increase employment levels over the next six months. The indexes for future prices paid and received decreased 12 points each.

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The June 2016 *Manufacturing Business Outlook Survey* will be released on June 16, 2016, at 8:30 a.m. ET.



## Firms Expect Their Own Price Increases to Match the Rate of Inflation

In this month's special questions, firms were asked to forecast the changes in prices of their own products over the next four quarters. The median forecast was for an increase in their own prices of 2 percent, a rate of increase in line with the rate of inflation firms expect that the workers they employ regionally as well as the average U.S. consumer will face (see Special Questions). Firms expect their own per employee compensation costs (wages plus benefits) to rise by 3 percent over the same period. When asked about the average rate of inflation for consumers over the next 10 years, the firms' median forecast was 2.5 percent. The median responses were unchanged from February, when the quarterly questions were last asked, with one exception: In February, the median price forecast for firms' own prices was lower, at 1.3 percent.

### Summary

This month's *Manufacturing Business Outlook Survey* suggests essentially no growth of the region's manufacturing sector. The survey's indicators for general activity, new orders, shipments, and employment all remained negative. Though indicators for future conditions fell from last month, expectations for future growth continue to be positive. ■

Special Questions (May 2016)	
Over the next year (2016:Q2 to 2017:Q2), please list your expected annual percent change with respect to the following:	
	Percent Change*
<b>1. For your firm:</b>	
Prices your firm will receive (for its own goods and services sold).	2.0
Compensation your firm will pay per employee (for wages and benefits).	3.0
<b>2. For your employees:</b>	
Prices your employees will pay (for goods and services where they live).	2.0
<b>3. For U.S. consumers:</b>	
Prices U.S. consumers will pay (for goods and services).	2.0
For the next 10 years (2016 through 2025), what is your expected annual average percent change with respect to the following:	
<b>4. For U.S. consumers:</b>	
Prices U.S. consumers will pay (for goods and services).	2.5
*Numbers represent median forecasts. At least 85 percent of the firms responding to the survey also responded to the special questions.	

MANUFACTURING BUSINESS OUTLOOK SURVEY May 2016	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?	-1.6	24.5	49.2	26.3	-1.8	42.2	47.1	36.2	11.0	36.1
Company Business Indicators										
New Orders	0.0	23.9	50.3	25.8	-1.9	48.7	52.7	31.6	12.8	39.9
Shipments	-10.8	26.7	46.1	27.2	-0.5	41.0	50.2	31.3	12.2	37.9
Unfilled Orders	-6.3	9.3	70.4	18.0	-8.8	15.8	24.2	63.6	9.7	14.5
Delivery Times	-9.9	3.9	76.9	18.6	-14.6	0.5	7.3	78.9	9.5	-2.2
Inventories	-20.5	18.9	59.6	21.4	-2.5	-3.9	20.9	44.0	33.0	-12.0
Prices Paid	13.2	23.6	68.3	8.0	15.7	36.7	32.8	56.6	8.1	24.8
Prices Received	7.4	20.4	73.6	5.6	14.8	22.6	20.7	66.0	10.1	10.5
Number of Employees	-18.5	13.8	69.1	17.1	-3.3	14.2	22.8	63.1	10.8	12.0
Average Employee Workweek	-16.2	6.1	68.6	21.3	-15.1	12.5	21.0	65.6	7.3	13.7
Capital Expenditures	--	--	--	--	--	12.7	30.1	58.9	6.5	23.6
<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, omissions by respondents, or both.										
(4) Survey results reflect data received through May 16, 2016.										

