

BUSINESS

Federal Reserve Bank
of Philadelphia

OUTLOOK Survey

September 1995

Conditions in the region's manufacturing sector have improved markedly, according to responses to this month's *Business Outlook Survey*. In addition to a sizable increase in the current general activity index, indicators for new orders and shipments rose sharply this month. For the first time since March, more firms are reporting increases in employment than are reporting declines. Those polled see continued improvement in business conditions for manufacturing over the next six months.

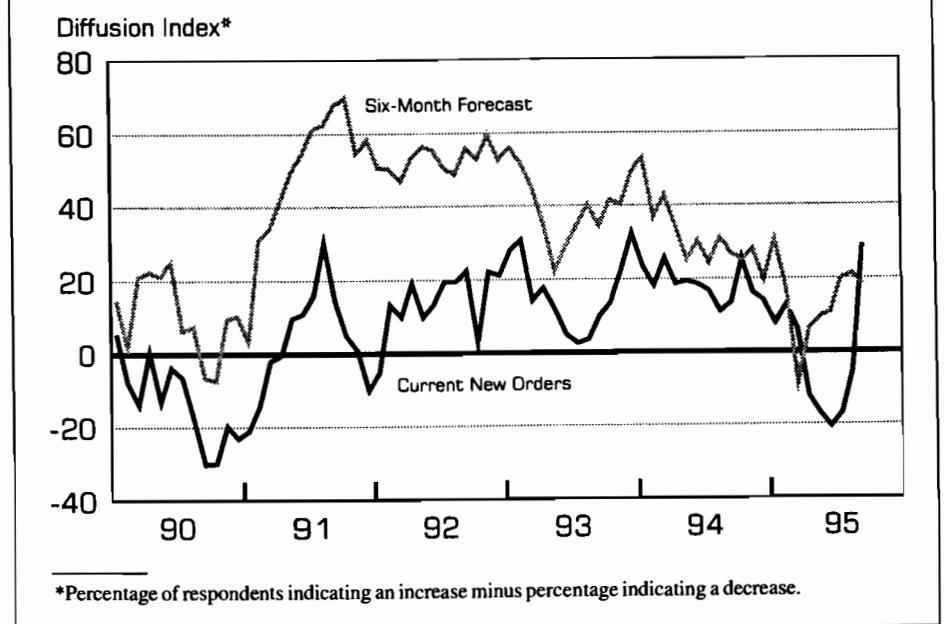
Current Indicators Are on the Rise

The survey's current general activity diffusion index increased sharply from 4.4 in August to 26.4 this month. The positive readings in August and September followed a four-month period of negative readings. This month, approximately 43 percent of the manufacturers reported increased activity, in contrast to the 27 percent that reported increased activity last month.

Other current indicators also show marked improvement this month. The current new orders index jumped from -5.4 in August to 29.1, the largest one-month increase in the history of the series (see Chart). The survey's current shipments index showed a similar rise, increasing from 8.6 in August to 27.2.

Indications of improved conditions can also be gleaned from responses to questions about unfilled orders and delivery times. For the first time this

Current and Future New Orders
(January 1990 to September 1995)



year, the percentage of firms reporting an increase in unfilled orders (25 percent) was greater than the percentage reporting a decline (22 percent), and the unfilled orders index increased from -13.4 to 3.0. The delivery time index also increased from -15.1 in August to -5.2. The diffusion index for current inventories also increased sharply from -25.1 to -4.1 this month, suggesting that manufacturers may no longer be trying to reduce inventories.

The employment front shows some evidence of improvement, even though 79 percent of firms reported no change in overall employment from the previous

month. For the first time since March, the percentage of firms reporting higher employment (15 percent) edged out the percentage reporting declines (5 percent). The current employment diffusion index increased from -15.9 to 10.8, the highest reading since November 1994. The average workweek is steady: about the same percentage of firms reported longer hours (13 percent) as reported shorter hours (15 percent).

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Input Price Pressures Continue to Moderate

Price pressures on raw materials and purchased manufacturing inputs continue to abate. Although a larger percentage of firms (22 percent) reported an increase in input prices than reported a decline (8 percent), the overall diffusion index for current prices paid fell for the eighth consecutive month, from 15.1 in August to 13.6.

When asked about prices for their own manufactured goods, 12 percent reported higher prices this month, and 8 percent reported lower prices. The current prices received index, which has been negative for the past three months, increased from -5.4 to 4.3.

Manufacturers Forecast Further Improvement Over the Next Six Months

For the next six months, the polled

manufacturers are expecting continued improvement in business conditions, led by an expansion in new orders (see Chart). Over 47 percent of the manufacturers expect overall business activity to increase over the next six months; 23 percent expect declines. The survey's diffusion index for manufacturing activity, now at 23.7, remains virtually unchanged from that in August. Over 40 percent of the firms forecast an increase in both new orders and shipments. On balance, unfilled orders are expected to remain near current levels, and more firms expect faster deliveries (16 percent) than expect slower deliveries (5 percent). Almost 35 percent of firms forecast declines in inventories from present levels, while 24 percent forecast an increase.

Reported plans for hiring additional factory workers have been relatively

more optimistic in the past two surveys. For the second consecutive month, more firms plan to add to their payrolls over the next six months (21 percent) than plan to reduce (17 percent). The future employment diffusion index increased marginally from 2.5 to 3.4 this month.

Summary

Survey responses this month indicate manufacturing activity is regaining strength. Survey indicators had suggested declines in activity from April through July, but the indicators have moved sharply up during the past two months. Those surveyed report increases in new orders and shipments this month, and a larger percentage of firms report hiring additional workers. Most future indicators point to further improvements over the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns
September 1995

	September vs. August				Six Months from Now vs. September			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	16.7	40.1	43.1	26.4	23.3	27.8	47.1	23.7
Company Business Indicators								
New Orders	13.1	43.0	42.2	29.1	24.9	32.1	43.0	18.1
Shipments	12.4	46.1	39.6	27.2	27.0	30.5	40.8	13.8
Unfilled Orders	21.9	53.2	24.9	3.0	21.4	55.7	18.2	-3.2
Delivery Time	11.8	77.8	6.6	-5.2	15.8	75.3	5.4	-10.4
Inventories	30.8	42.6	26.6	-4.1	34.7	41.3	24.1	-10.6
Prices Paid	8.4	69.5	22.0	13.6	8.6	58.0	33.4	24.8
Prices Received	7.5	80.8	11.8	4.3	5.5	57.5	37.0	31.5
Number of Employees	4.5	78.6	15.3	10.8	17.2	62.2	20.6	3.4
Average Employee Workweek	14.4	71.1	12.8	-1.6	11.4	68.2	19.5	8.0
Capital Expenditures	—	—	—	—	11.2	41.4	33.4	22.2

Notes: (1) Items may not add up to 100 percent because of omission by respondents.
 (2) All data seasonally adjusted.
 (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease.

