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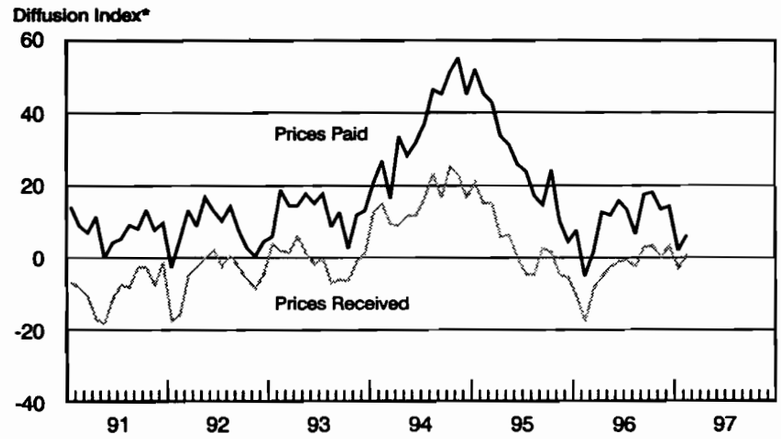
# BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

February 1997

Indicators of manufacturing activity improved slightly this month, with new orders and shipments edging upward. Although survey responses suggest little acceleration in growth, most firms expect increases in demand for manufactured goods and are more optimistic about employment increases over the next six months. There is still little evidence of upward pressure on the prices of manufacturing inputs or the prices of final products.

***Current Prices Paid and Prices Received***
(January 1991 to February 1997)




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

**Current Indicators Improve Modestly**

The survey's current general activity index increased slightly this month, from 11.3 in January to 17.4. The increase marks the second consecutive monthly increase in the index. The index dropped below zero in December, following a steady decline during the last half of 1996. Both new orders and shipments registered slight increases this month: the current new orders index increased from its reading of 18.7 in January to 20.7, and the current shipments index increased from 9.4 to 10.0.

Manufacturers appear to be having little trouble keeping up with shipments: for the sixth consecutive month, indexes for both unfilled orders and delivery times remain slightly negative. Both indexes, however, increased somewhat this month: the current unfilled orders index increased from -12.7 to -6.2, and the delivery time index increased from -11 to -8.4.

Employment indexes suggest current demand is being managed with the existing work force. Employment is reported steady by 76 percent of the manufacturers this month, and the percentage of firms reporting higher employment is the same as that reporting lower employment (11 percent). The current employment index fell slightly, from 3.4 to 0.1. Likewise, the average workweek index declined from 2.8 to -3.2.

**Price Indicators Rise but Remain At Relatively Low Readings**

Survey indicators for manufacturers' input and output prices rose somewhat this month but remained considerably lower than their average readings for the past year (see Chart). Although input prices are reported steady at 75 percent of firms polled, the percentage reporting increases (16 percent) is larger than that reporting declines (9 percent). The current prices paid index increased moderately from 2.1 to 6.3. Output prices are reported steady by 78 percent of firms, and the percentage reporting higher prices this month (11 percent) is nearly equal to that reporting lower prices (10 percent). The current prices received index, although it increased from -3.0 to 0.8, has remained little changed over the past year.

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**Forecasts Have Been Rosier Over the Past Three Months**

The manufacturers polled in early February are generally upbeat about the prospects for their businesses over the next six months. Nearly 47 percent of the firms expect improvement in overall business during the next six months, while only 11 percent expect any deterioration. The survey's index of future business conditions increased from 28.4 in January to 36.4 and is now near its level at year-end 1996. On balance, expectations over the past few months have improved, compared with readings over most of 1996.

Nearly 57 percent of the firms forecast growth in new orders and 58 percent growth in shipments over the next six months. For the second consecutive month, the firms are forecasting a rise in unfilled orders and longer delivery times. Moreover, the future unfilled orders index jumped sharply from 4.6 to 22.7, and the future delivery time index also jumped from 1.8 to 10.2.

Firms' employment forecasts are considerably more optimistic this month. More than 39 percent of firms expect higher employment over the next six months, while only 9 percent expect lower employment. In contrast, only 29 percent of participants in the January survey expected a rise in employment. The future employment index increased from 15.4 to 30.3, and the future average workweek index saw a similar rise, from 4.0 to 23.8.

**Summary**

Most current indicators of regional manufacturing conditions improved marginally this month. Employment is not increasing, however, and prices of manufactured goods are reported steady, according to the survey participants. But the manufacturers' forecasts envision a more rapid pace of growth ahead. A rising share of firms anticipate increasing employment over the next six months to keep pace with expected increases in demand for manufactured goods.

***BUSINESS OUTLOOK SURVEY***
**Summary of Returns**
**February 1997**

| | February vs. January | | | | Six Months from Now vs. February | | | |
|---|---|---|---|---|---|---|---|---|
| | Decrease | No Change | Increase | Diffusion Index | Decrease | No Change | Increase | Diffusion Index |
| What is your evaluation of the level of general business activity? | 14.1 | 53.1 | 31.5 | 17.4 | 10.5 | 41.3 | 46.9 | 36.4 |
| **Company Business Indicators** | | | | | | | | |
| New Orders | 16.8 | 43.6 | 37.5 | 20.7 | 12.7 | 26.1 | 56.9 | 44.2 |
| Shipments | 19.8 | 46.5 | 29.9 | 10.0 | 12.3 | 23.8 | 58.3 | 46.1 |
| Unfilled Orders | 19.8 | 62.4 | 13.6 | -6.2 | 11.5 | 48.5 | 34.2 | 22.7 |
| Delivery Time | 15.8 | 76.9 | 7.3 | -8.4 | 15.6 | 58.5 | 25.9 | 10.2 |
| Inventories | 29.9 | 48.7 | 21.5 | -8.4 | 26.6 | 47.4 | 21.9 | -4.7 |
| Prices Paid | 9.4 | 74.9 | 15.7 | 6.3 | 6.0 | 54.9 | 36.0 | 30.0 |
| Prices Received | 10.3 | 78.1 | 11.1 | 0.8 | 8.2 | 62.3 | 25.5 | 17.3 |
| Number of Employees | 10.7 | 76.0 | 10.7 | 0.1 | 8.9 | 47.3 | 39.2 | 30.3 |
| Average Employee Workweek | 18.1 | 66.9 | 14.9 | -3.2 | 12.7 | 48.6 | 36.5 | 23.8 |
| Capital Expenditures | — | — | — | — | 11.7 | 40.2 | 33.3 | 21.7 |

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.