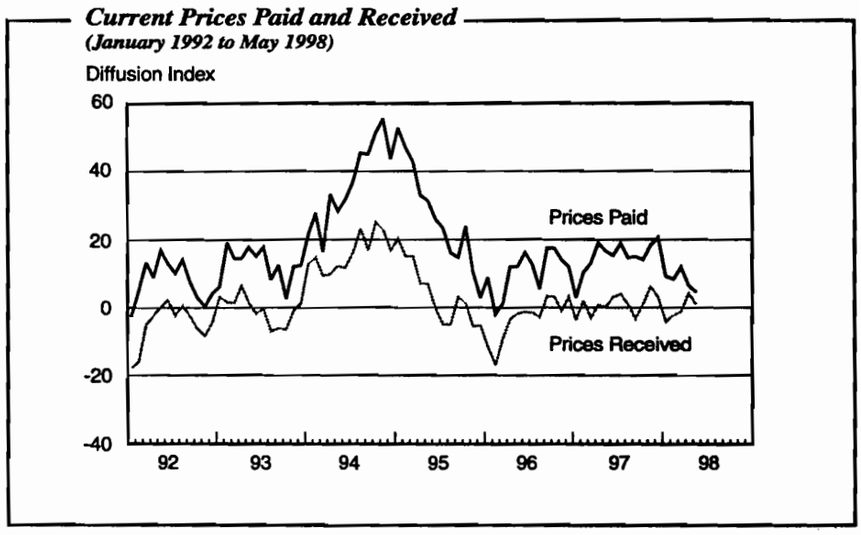
BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

May 1998

Led by growth in new orders, the region's manufacturing sector continues to advance. Most indicators of current economic activity based on this month's *Business Outlook Survey* show improvement. Indicators suggest little upward pressure on prices, and current employment is higher. Manufacturers' expectations for the near future have moderated in recent months.



Current Indicators Suggest Continued Health

Growth in regional manufacturing activity is evident in almost all of the survey's current indicators this month. The broadest indicator of economic performance, the current general activity index, increased from 13.4 to 17.5: 29 percent reported increases in activity and 12 percent reported declines. The current activity index has fluctuated within a relatively stable range for the past eight months, suggesting relatively steady economic growth.

Other indicators of current manufacturing activity also suggest healthy growth in the manufacturing sector. The current new orders index increased from 16.6 to 23.8. Over 36 percent of respondents reported growth in new orders, compared with about 29 percent reporting growth in the previous month. The current shipments index remains at a relatively high level, although it declined modestly, from 17.6 to 16.6. Indicators for unfilled orders and delivery times increased this month, but only modestly, and do not suggest an unusual misalignment of shipments and orders. The current employment index increased notably from -3.6 to 7.0, following a one-month dip into negative territory. Although 72 percent of the polled manufacturers report no change in employment this month, the percentage reporting increases (16 percent) is greater than the percentage reporting decreases (9 percent).

Price Pressures Remain Subdued

The survey's two current price indicators moved lower this month, suggesting moderation of price pressures (see Chart). A large percentage of firms (79 percent) reported steady prices for raw materials and other purchased inputs. Moreover, the current prices paid index declined for the second consecutive month, from 6.6 to 4.7; it has shown a downward trend over the first five months of this year. Only 12 percent of firms reported increases in prices for their own manufactured goods this month, and that is offset by 11 percent reporting declines. Although slightly positive for the second consecutive month, the current prices received index declined from 4.3 to 1.0.

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Forecasts Show Continued Moderation

Expectations of future growth for the region's manufacturing sector remain favorable. The future general activity index, however, declined from 28.4 to 26.7, the second consecutive month of decline. Nearly 47 percent of the manufacturers expect continued growth in manufacturing activity over the next six months. A barometer of expectations about future demand, the future new orders index, also declined modestly for the second consecutive month, from 33.0 to 30.8. Over 52 percent of firms expect increases in new orders over the next six months.

That expectations have moderated is gleaned from responses regarding plans for employment growth over the next six months. The largest percentage of firms (72 percent) expect no change in current employment over the next six months, but the percentage expecting increases and decreases is the same (13 percent). Moreover, the future employment index declined for the fourth consecutive month, from 5.9 to 0.4, its lowest reading since August 1996.

Summary

Manufacturing growth in the region is still reported on the rise. Current economic indicators from the *Business Outlook Survey* suggest healthy increases in demand for manufactured goods. Price pressures on the input side appear to be moderate, and manufacturing employment is somewhat higher this month. Most indicators for future growth remain favorable, but optimism for future employment growth has been dissipating in recent months.

BUSINESS OUTLOOK SURVEY

Summary of Returns
May 1998

	May vs. April				Six Months from Now vs. May			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	11.8	56.3	29.3	17.5	19.8	33.3	46.6	26.7
Company Business Indicators								
New Orders	12.5	50.5	36.3	23.8	21.6	25.6	52.4	30.8
Shipments	16.9	47.1	33.5	16.6	16.6	29.9	51.3	34.7
Unfilled Orders	18.3	62.4	18.9	0.6	18.5	55.2	22.4	3.9
Delivery Time	14.2	67.4	18.4	4.1	15.7	72.0	12.3	-3.3
Inventories	20.7	54.6	23.4	2.7	26.8	56.0	15.9	-10.9
Prices Paid	8.3	78.7	13.0	4.7	4.1	66.4	27.6	23.6
Prices Received	10.6	77.5	11.6	1.0	10.4	64.6	25.0	14.5
Number of Employees	8.5	76.0	15.5	7.0	12.8	72.1	13.2	0.4
Average Employee Workweek	13.7	68.1	16.4	2.6	12.9	69.0	18.0	5.1
Capital Expenditures	—	—	—	—	10.0	44.0	28.0	18.0

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.