

BUSINESS

Federal Reserve Bank
of Philadelphia

OUTLOOK Survey

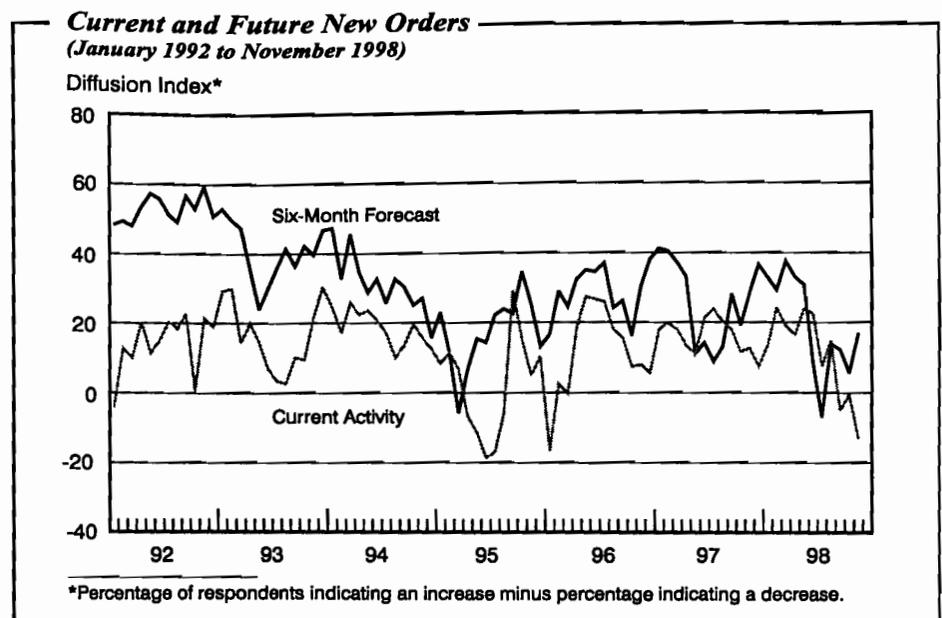
November 1998

Manufacturing activity in the region shows continuing signs of deterioration, according to results from this month's *Business Outlook Survey*. Current indicators suggest declines in new orders and shipments this month. Price reductions for both inputs and final manufactured goods are more common than price increases again this month. Firms' forecasts for manufacturing activity over the next six months, which have been relatively pessimistic in recent months, showed some improvement.

Most Current Indicators Suggest Declines

The survey's current activity index decreased from -6.1 to -14.1 and has now remained negative for three consecutive months. Over 50 percent of the manufacturers report no change in overall business this month, and the percentage reporting declines (30 percent) exceeded the percentage reporting increases (16 percent). Other indicators of manufacturing activity corroborate the reported weakening of overall manufacturing this month. For the third consecutive month, the percentage of firms reporting declines in new orders (34 percent) exceeded the percentage reporting increases (21 percent). The current new orders index fell from -0.5 to -13.1, its lowest reading since January 1996 (see Chart). For the first time in three years, the current shipments index dropped below zero, from 10.9 to -9.5.

Weakness in current activity is also evident in responses about unfilled orders and delivery times. For the third



consecutive month, more firms reported a shorter delivery time (22 percent) than reported a longer one (8 percent). Likewise, manufacturers reported a decline in unfilled orders; the current unfilled orders index has remained negative for four consecutive months.

For the first time since April, the current employment index fell below zero, declining from 0.7 to -3.3. Although 75 percent of firms report no change in employment this month, the percentage reporting declines (14 percent) exceeded the percentage reporting increases (11 percent). Average work hours are reported lower this month. The current average workweek index fell precipitously, from -3.2 to -22.3.

Price Declines Still in Evidence

As further evidence of weakness in the manufacturing sector, prices of final manufactured goods are in decline for a significant percentage of firms. Although more than 75 percent of the firms reported no change in their prices for manufactured goods, more than 18 percent reported price reductions, and only 6 percent reported price increases. The current prices received index, at -12.7, was virtually unchanged this month, and it has remained negative for five consecutive months.

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Prices of purchased raw materials and other inputs are also facing downward pressure, according to the firms polled. Nearly 17 percent of the firms reported reductions in input prices this month, and 7 percent reported increases. Although the current prices paid index increased from -14.5 to -9.2, it has also remained negative for five consecutive months.

Six-Month Forecasts Recover Somewhat

Despite reported weakness in current demand, manufacturers' outlook for the next six months has improved. The future general activity index, the survey's broadest measure of overall expectations, increased from -5.1 to 8.2, the first positive reading in six months. The

improvement in expectations is associated with an improved outlook for new orders. The future new orders index increased from 5.6 to 17 (see Chart). Forty-four percent of firms expect increases in new orders over the next six months; in the previous month's survey, 34 percent expected increases. The future shipments index also rose this month, but more moderately — from 2.7 to 6.9. Despite improvement in the index, a wide disparity still exists in firms' forecasts for the next six months. While 37 percent of firms expect improvement in overall business over the next six months, 29 percent expect a deterioration, and 26 percent expect no change.

Firms' expectations for future employment are less optimistic. The

percentage of firms expecting employment declines (27 percent) exceeds the percentage expecting increases (17 percent). Moreover, the future employment index fell from 6.3 to -9.8. More firms also expect declines in the average workweek than expect increases.

Summary

The surveyed manufacturers in the region reported declines in business activity again this month. Weaker demand for manufactured goods has given rise to declines in shipments this month as well as declines in employment and average work hours. Although firms' forecasts have improved this month, significant division remains regarding the prospects for manufacturing over the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns November 1998

	November vs. October				Six Months from Now vs. November			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	29.9	50.3	15.8	-14.1	29.2	25.9	37.4	8.2
Company Business Indicators								
New Orders	34.1	44.8	21.0	-13.1	26.5	27.8	43.5	17.0
Shipments	31.0	47.5	21.5	-9.5	30.7	29.6	37.6	6.9
Unfilled Orders	30.9	55.2	12.5	-18.4	28.5	45.2	21.0	-7.5
Delivery Time	22.3	68.0	7.8	-14.5	29.3	51.2	15.9	-13.3
Inventories	33.7	48.7	16.1	-17.6	41.8	40.8	15.7	-26.1
Prices Paid	16.5	74.0	7.4	-9.2	16.0	64.7	14.2	-1.8
Prices Received	18.3	75.4	5.6	-12.7	14.6	64.1	17.8	3.2
Number of Employees	14.2	74.9	10.9	-3.3	27.1	53.5	17.3	-9.8
Average Employee Workweek	28.4	63.8	6.1	-22.3	24.0	55.4	15.8	-8.2
Capital Expenditures	—	—	—	—	11.9	50.4	26.4	14.5

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.