BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

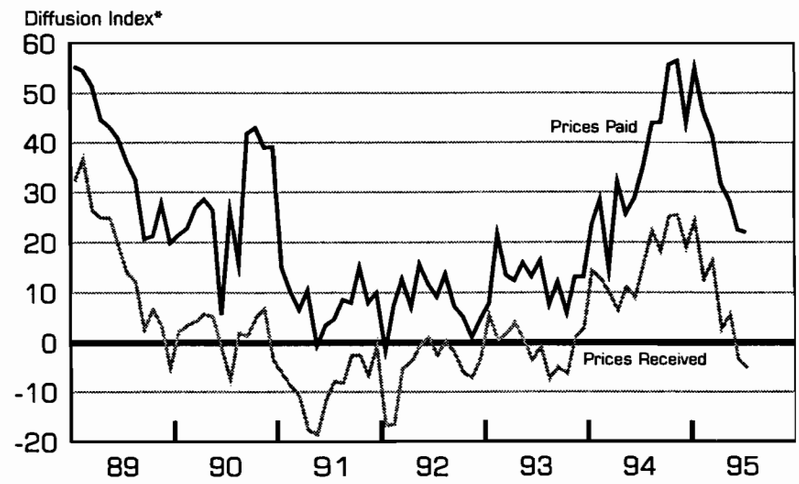
July 1995

The District's manufacturers report continued declines in activity in this month's *Business Outlook Survey*. Both shipments and new orders are down again this month and employment is reported lower. Price pressures have also moderated, according to those polled. Most future indicators, however, improved this month, as manufacturers expect an increase in manufacturing activity in the second half of the year.

Manufacturers Report Declines in Activity

Current indicators suggest that the region's manufacturing sector is continuing to decline this month. The July survey's current general activity index remains negative at -23.7, virtually unchanged from the previous month. The indicator has been negative since April. Over 39 percent of the polled manufacturers said overall business activity declined this month, 16 percent reported increased activity. Other current diffusion indexes also remained below zero this month. For the fourth consecutive month, more firms reported declines in new orders (40 percent) than reported increases (23 percent). The current new orders index, however, improved slightly from -20.6 to -16.9. The current shipments index, now at -12.2, is virtually unchanged from last month. The manufacturers report an overall decline in unfilled orders and shorter delivery times this month. They also report a drop in inventories, on balance.

Current Prices Paid and Prices Received
(January 1989 to July 1995)



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

Weakened demand for manufactured goods has resulted in lower employment this month; 28 percent of the firms report declines, only 6 percent report increases. The survey's current employment diffusion index, which has been negative for four months, weakened from -16.5 to -21.7. More firms also reported lower average work hours, as 33 percent of manufacturers reported decreases and only 7 percent reported increases.

Survey Price Indexes Show Continued Improvement

Fewer firms report increases in prices for raw materials and other purchased inputs this month. The current prices paid index, now at 22.0, has been edging down over the past six months (see Chart) but remains near its June level. About 27 percent reported higher input prices, while 5 percent reported declines and 67 percent reported steady prices.

The recent decline in manufacturing has influenced the prices received for

To subscribe to this publication call (215) 574-6428. This publication can be found on the Internet using World Wide Web at http://compstat.wharton.upenn.edu:8001/~siler/fedpage.html

Economic Research Division Ten Independence Mall, Philadelphia, PA 19106-1574

manufactured goods. For the second consecutive month, the percentage of firms reporting price declines (11 percent) is larger than the percentage reporting higher prices (6 percent). The current prices received index edged lower from -3.5 to -5.2.

Looking ahead six months, 39 percent of the manufacturing firms expect higher prices for their inputs and 29 percent expect higher prices for their own products. Reflecting diminished expectation of input price pressures, the future prices paid index has now reached its lowest level since the origin of the series in 1968.

Future Indicators Show Increases

The region's manufacturers do not expect that recent declines in activity will extend to the next six months. Nearly 42 percent of the firms expect increases in overall business in the next six months, only 21 percent expect declines. The overall future activity diffusion index increased from 5.0 in June to 20.9, the highest reading since January. Consistent with the increased activity, the indexes for future new orders and shipments were strongly positive. Forecasts of employment growth appear somewhat less optimistic. A slightly larger percentage of firms expect employment declines in the next six months (20 percent) than expect employment increases (17 percent). The overall future employment index, however, improved from -13.4 in June to -3.0 this month.

Summary

Output at the region's manufacturing plants declined again in July. Most of the survey's broad measures of current conditions have now remained negative for four consecutive months. Declines in activity have been accompanied by reductions in employment and also a dampening of price increases for raw materials. Prices for surveyed manufacturers' own goods are reported steady. Although current conditions continue to weaken, survey respondents are expecting improvement over the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns
July 1995

	July vs. June				Six Months from Now vs. July			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	39.2	41.8	15.5	-23.7	20.9	37.3	41.8	20.9
Company Business Indicators								
New Orders	39.6	36.2	22.6	-16.9	19.8	40.2	39.9	20.1
Shipments	33.5	43.1	21.3	-12.2	19.2	35.1	44.3	25.1
Unfilled Orders	50.2	38.3	9.8	-40.4	24.0	52.0	18.4	-5.6
Delivery Time	29.3	67.7	1.7	-27.6	18.0	64.6	15.0	-3.0
Inventories	36.9	44.8	17.6	-19.2	29.5	47.4	21.8	-7.7
Prices Paid	5.4	67.2	27.4	22.0	16.4	42.2	38.6	22.2
Prices Received	10.7	83.8	5.5	-5.2	12.6	57.5	28.8	16.2
Number of Employees	28.0	65.1	6.3	-21.7	20.0	62.5	17.1	-3.0
Average Employee Workweek	32.7	59.8	7.4	-25.3	20.3	54.6	25.1	4.7
Capital Expenditures	—	—	—	—	10.0	53.6	20.0	10.0

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.

FEDERAL RESERVE BANK OF PHILADELPHIA