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Federal Reserve Bank
of Philadelphia

BUSINESS

OUTLOOK Survey

January 1997

Manufacturing activity in the region has regained momentum this month, according to results of the January *Business Outlook Survey*. Indicators of current economic activity returned to positive levels, following the one-month negative readings in December. Indicators reflecting the manufacturers' forecast for the next six months are suggestive of continued growth ahead.

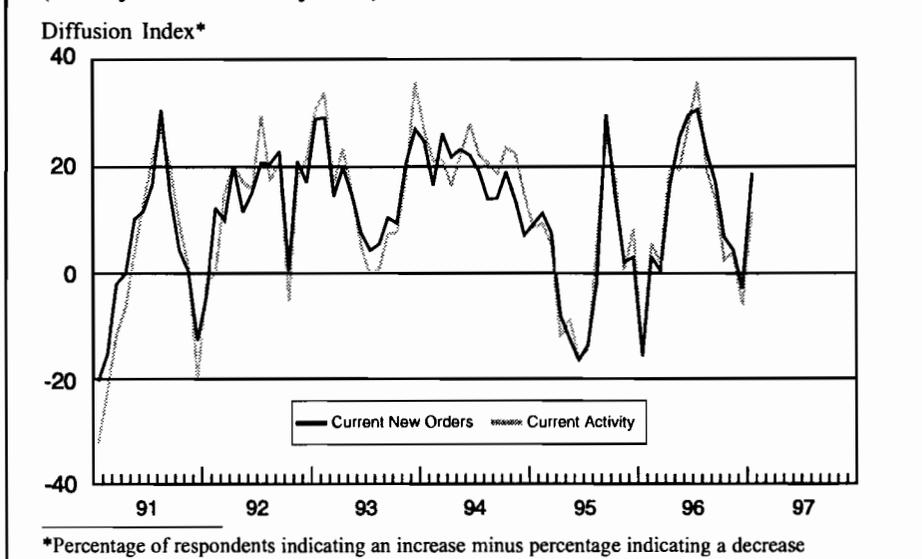
Current Indicators Suggest a Return To Growth

Growth in regional manufacturing activity is seen in almost all of the survey's current indicators this month. The current general activity index increased to 11.3 from a revised reading of -6.2 in December (see Chart).¹ The improvement in business conditions over December is reflected most notably in reported increases in new orders (see Chart). Paralleling the rise in the general activity diffusion index, the current new orders index rose from -2.9 to 18.7. Although the current shipments index did not drop below zero in December like the other indexes, it also improved this month, from 4.1 to 9.4.

Despite reported growth in shipments this month, the manufacturers indicate, on balance, declines in unfilled orders and shorter delivery times. Survey responses are also suggestive of some inventory investment this month — the current inventories index increased from -6.6 to 3.4, the first positive reading in more than two years.

On the employment front, 73 percent of manufacturers report a nearly steady work force this month. More-

Current Activity and New Orders
(January 1991 to January 1997)



over, the percentage of firms reporting increases in employment (15 percent) is only slightly higher than the percentage reporting decreases (12 percent). The indexes for current employment and average workweek were virtually unchanged this month at 3.4 and 2.8.

Survey Indexes Suggest Nearly Steady Prices

Responses regarding changes in input prices suggest less upward pressure this month. The current prices paid index fell from 14.4 to 2.1, its lowest reading in 10 months. Almost 82 percent of manufacturers report no change in input prices from the previous month, and the percentage reporting

price increases (10 percent) was nearly offset by the percentage reporting declines (8 percent).

On the output side, price pressures are also on the wane. The largest percentage (87 percent) reports no

¹Each year, the Federal Reserve Bank of Philadelphia revises historical data for the *Business Outlook Survey* after calculating new seasonal adjustment factors. The table attached to this month's release contains the revised indexes for five of the diffusion index series. Complete historical data for all series are available by request and are now available from our Internet site (see box below).

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change in the prices of final manufactured products. And for the first time in five months, the percentage reporting price reductions (7 percent) was greater than the percentage reporting increases (4 percent). The current prices received index, positive since August, dipped below zero, from 3.3 in December to -3.0. The current prices received index, however, had remained negative in the 10 months prior to August.

Expectations Favor Continued Growth

Firms' forecasts for the next six months suggest continued expansion of the region's manufacturing sector. Although the survey's index of overall future economic conditions retreated somewhat from a reading of 41.1 in December to 28.4 this month, the survey's other future indicators remained buoyant. Reported increases in current

new orders and shipments are expected to continue over the next six months. The future shipments index increased from 35 to 44.3. The future new orders index remained at a high level, although it declined marginally from 42.7 to 41.7. Shipments are expected to keep pace with orders, and the level of unfilled orders should remain steady. Delivery times should also stay near their current levels. Overall, inventories are expected to fall below current levels.

Forecasts for future employment have shown some improvement in recent surveys. Although most firms expect their employment levels to remain steady, the percentage forecasting increases in workers (29 percent) is higher than the percentage expecting declines (14 percent). The future employment index, which was at 16.1 in December, held nearly steady at 15.4.

The index has remained near its current relatively high readings for the past three months, suggesting a more favorable forecast for manufacturing growth over the next six months.

Summary

The region's manufacturing sector is recording positive growth this month, following a pause in activity in December and a slowing of growth in the fourth quarter. Indexes for both general activity and new orders showed notable improvements this month. Moreover, survey responses suggest some moderation in price pressures this month. Expectations for continued manufacturing growth remain favorable: a significant share of firms forecast growth in new orders over the next six months, and more firms plan to expand payrolls than reduce them.

BUSINESS OUTLOOK SURVEY

Summary of Returns January 1997

	January vs. December				Six Months from Now vs. January			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	16.1	55.4	27.4	11.3	13.3	43.6	41.6	28.4
Company Business Indicators								
New Orders	13.0	51.0	31.7	18.7	9.7	38.5	51.4	41.7
Shipments	18.0	53.2	27.4	9.4	9.0	36.5	53.3	44.3
Unfilled Orders	23.2	60.4	10.6	-12.7	14.2	65.9	18.8	4.6
Delivery Time	20.9	69.2	9.9	-11.0	14.1	68.3	15.9	1.8
Inventories	25.4	45.8	28.8	3.4	34.9	49.0	16.1	-18.8
Prices Paid	7.5	81.6	9.6	2.1	2.8	60.9	34.9	32.1
Prices Received	7.0	87.0	4.0	-3.0	9.1	60.3	30.1	21.0
Number of Employees	11.5	73.4	15.0	3.4	13.5	55.9	28.9	15.4
Average Employee Workweek	13.1	69.3	16.0	2.8	20.5	54.4	24.5	4.0
Capital Expenditures	—	—	—	—	17.9	39.1	27.0	9.1

- 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.

Selected Revised Diffusion Indexes, Business Outlook Survey (1991-1996)

	January	February	March	April	May	June	July	August	September	October	November	December
Current General Activity												
Diffusion Index												
1991	-32	-22.1	-11.7	-6.4	3.9	13	21.4	27.2	20.1	9.3	1.2	-20.2
1992	-2.3	0.3	15	20.2	17.1	15.6	29.7	17.3	21.1	-5.4	17.9	21.6
1993	30.9	33.9	16.7	23.6	15.1	5	-0.4	0.9	7.3	7.6	17.9	35.8
1994	26.9	21.1	21.4	16.3	22.1	28.1	22.2	20.7	18.4	23.6	22.4	14.6
1995	8.5	9.2	5.3	-12.2	-8.6	-16.1	-14.3	5	26.2	17.9	0.6	8.2
1996	-15.3	5.4	2	20.2	19.3	27.7	35.9	19.3	13.7	2.5	3.7	-6.2
Current Employment												
Diffusion Index												
1991	-21.2	-21.6	-18.5	-24.6	-11.1	-9	-13.4	-8.1	0.9	-11.6	-9.5	-21.4
1992	-8.1	-19.9	-4.7	-6.2	-4.3	8	3.6	-0.3	0.2	-10.4	-8.8	-0.5
1993	-0.4	3.4	-4.5	-3	3.2	-8.4	-11.8	-13.2	-7.3	4.5	-6.2	2.8
1994	5.7	3.3	6.9	8.9	6	4.6	5.5	5.2	1.8	7.9	9	0.9
1995	1	8.6	3.6	-18.9	-13.6	-11.6	-18.5	-11.4	8	-0.8	-6.2	-13
1996	-10	-9.6	0.5	-0.3	5.8	6.5	9.5	5.8	6.9	-5.6	-2.4	-3.2
Current Prices Paid												
Diffusion Index												
1991	14.4	9	7	11.6	0	4.2	5.3	9.2	8.1	13.4	7.7	9.8
1992	-2.7	5.1	13.3	8.9	16.9	13.2	10.3	14.4	7.7	2.7	0.4	4.6
1993	5.9	18.9	14.6	14.5	17.8	15.2	17.8	8.7	12.7	2.6	11.9	13.1
1994	20.9	26.8	16.5	33.5	28.2	31.6	37	46.3	45.1	51.3	55.2	45
1995	52	45.3	42.8	33.5	31.2	25.8	23.9	17.3	14.8	24.3	10.3	4.5
1996	7.8	-5.1	1.5	12.8	11.9	15.9	13.5	6.7	17.6	18.2	13.6	14.4
Current Prices Received												
Diffusion Index												
1991	-6.7	-8.4	-10.8	-17.1	-18.2	-11.4	-7.5	-8.2	-2.7	-2.7	-7.7	-1.4
1992	-17.4	-15.8	-5.1	-2.7	0	2.2	-2.3	0.6	-2.6	-6.1	-8.5	-4.5
1993	3.8	2	1.4	6	1.4	-1.8	-0.3	-7.1	-6.1	-6.5	-1.1	1.1
1994	12.9	15.1	9.4	9.1	11.8	11.8	16.4	23.3	16.7	25.2	23.1	16.7
1995	21	15.2	15.3	5.9	6.3	-0.2	-4.6	-4.7	2.7	1.5	-4.8	-5.5
1996	-10.9	-17.7	-8.6	-5.3	-2.6	-1.1	-0.6	-2.5	3	3.4	0.3	3.3
Future General Activity												
Diffusion Index												
1991	-11.3	27	40.4	40.7	51.8	58.9	63.3	66.5	71.4	71.2	63.8	66.2
1992	51.9	57.6	47.7	56.6	56.2	65.8	52.5	54.2	56.3	54.9	59.2	54.5
1993	54.7	65	48.7	41.4	28.6	30.8	37.6	38.8	36.1	40.9	32.5	49.6
1994	45.8	38.3	47.9	44.5	32.9	26.9	26.7	27.6	27.6	23.3	24.2	16.4
1995	17.3	12.5	-1.7	3.4	15.7	11.5	19.2	24.6	23.9	27	25.5	13.6
1996	24.6	33.9	26.8	30	29.8	36.1	32.1	19.1	17.5	14.4	14.7	41.1