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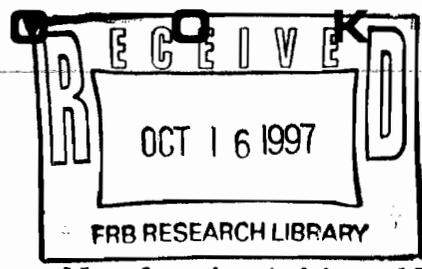
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BUSINESS

Federal Reserve Bank
of Philadelphia

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Survey

October 1997

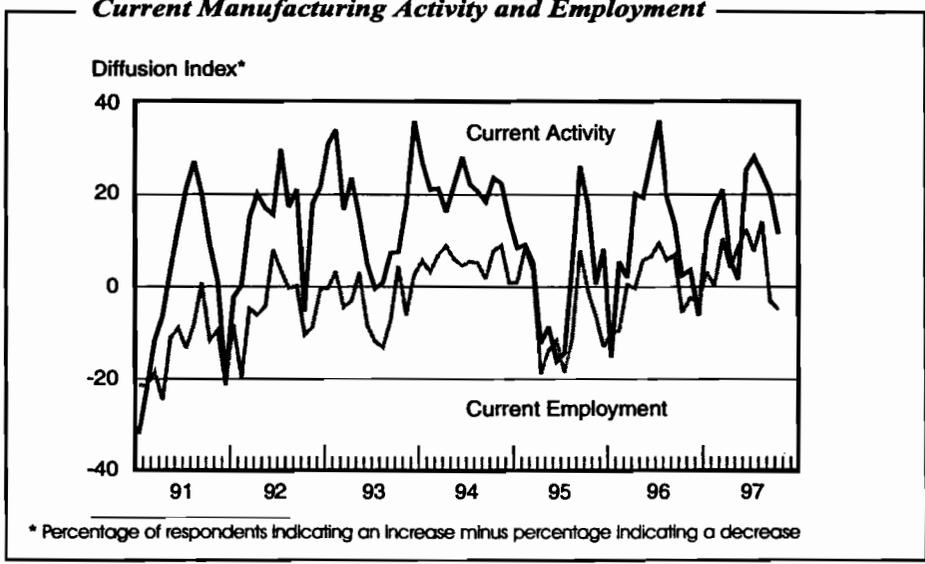
The region's manufacturers continue to report growth in the industrial sector in this month's survey, but their responses indicate some slowing in the rate of growth. For most of the indexes from the survey, readings in the past few months have been weaker than in the summer months. Overall expectations for the next six months are for moderate growth.

Most Indicators Suggest Slower Growth

The survey's current general activity diffusion index declined from 20.4 in September to 11.5 this month. This was the third consecutive month of decline for the indicator, as a pattern of slower growth emerges for the region's manufacturing sector (see Chart). Smaller increases in new orders have also been signaling slower overall growth. The diffusion index for current new orders remains positive, but it has declined for the past three months. While 37 percent of the firms reported increases in new orders this month, 25 percent reported declines. The diffusion index for new orders declined from 19.2 to 11.5. The shipments index also fell, but more moderately, from 13.8 to 11.4.

Other measures of manufacturing activity also suggest some recent slowing of growth. The survey responses indicate a further reduction in the backlog of orders; the unfilled orders index was negative for the second consecutive month and declined from -6.4 last month to -10.3 this month. Delivery times are also shorter with the percentage of firms

Current Manufacturing Activity and Employment



reporting faster delivery times (18 percent) exceeding the percentage reporting slower delivery times (6 percent). The delivery time index fell from -1.0 to -11.4.

The survey's labor market indicators are consistent with the overall slowing of growth in recent months. For the second month in a row the current employment index is below zero after eight months of positive readings (see Chart). The employment index fell from -3.0 in September to -4.9 this month. Average work hours are near steady this month with over 70 percent of the firms surveyed indicating no change in average work hours. The percentage of firms reporting decreases in work hours (16

percent) is slightly higher than the percentage reporting increases (14 percent).

Upward Price Pressures Are Limited

The survey's measures of industrial prices remain at relatively low levels although both the current prices paid and prices received indexes increased slightly this month. About 81 percent of the firms polled report no change in prices paid for inputs. Although the percentage of firms reporting higher input prices (16 percent)

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is greater than the percentage reporting lower prices (less than 1 percent), the prices paid index inched up only slightly from 15.1 to 15.5. For their own products, 9 percent of the firms in the survey received higher prices this month than last, and 8 percent received lower prices. The current prices received index increased slightly from -3.4 to 1.2.

Expectations Remain Moderately Optimistic

When asked about their business forecasts for the next six months, about 39 percent of the respondents indicated that overall business would increase, and

21 percent expected a decline in activity. The overall future activity index has remained relatively steady the past two months; it increased only slightly this month, from 18.1 to 18.9. Among the other indicators of future activity, 48 percent of the firms expect increases in new orders and 46 percent expect increases in shipments. On average, firms anticipate that unfilled orders will decline from their current levels and delivery times will shorten over the next six months. Even with moderate growth expectations, more firms expect to increase their work force (30 percent) than to decrease it (22 percent). The

future diffusion index for employment increased from 0.9 in September to 8.4 this month.

Summary

This month's survey of large regional manufacturers suggests continued growth although at a somewhat slower pace than in the summer months. Most notable is the slowing in the growth of new orders and the decline in the number of employees. The manufacturers' outlook for the next six months is for continued growth, but expectations are relatively subdued compared with those reported earlier in the year.

BUSINESS OUTLOOK SURVEY

**Summary of Returns
October 1997**

	October vs. September				Six Months from Now vs. October			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	18.2	50.9	29.7	11.5	20.5	36.3	39.4	18.9
Company Business Indicators								
New Orders	25.0	38.4	36.5	11.5	25.8	26.2	47.5	21.7
Shipments	20.2	45.9	31.6	11.4	26.4	25.7	45.5	19.1
Unfilled Orders	26.2	57.7	15.9	-10.3	33.5	52.3	12.5	-21.0
Delivery Time	17.7	74.9	6.3	-11.4	26.6	64.0	5.7	-20.8
Inventories	28.1	58.0	13.9	-14.3	32.6	35.4	28.1	-4.6
Prices Paid	0.1	81.4	15.6	15.5	2.8	60.7	35.2	32.4
Prices Received	7.9	82.7	9.1	1.2	11.7	65.8	20.2	8.5
Number of Employees	16.7	71.5	11.8	-4.9	21.5	48.5	30.0	8.4
Average Employee Workweek	15.7	70.2	14.1	-1.7	20.7	58.2	18.0	-2.7
Capital Expenditures	—	—	—	—	13.1	45.2	27.5	14.4

- 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.



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