

FED RES
PHIL
AC
101
B978

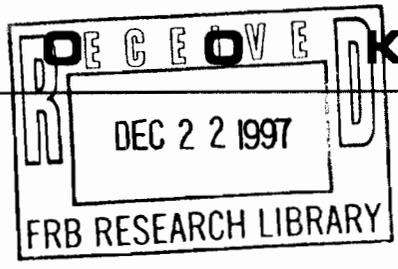
C. Aldrich

BUSINESS

Federal Reserve Bank
of Philadelphia

OUTLOOK Survey

December 1997

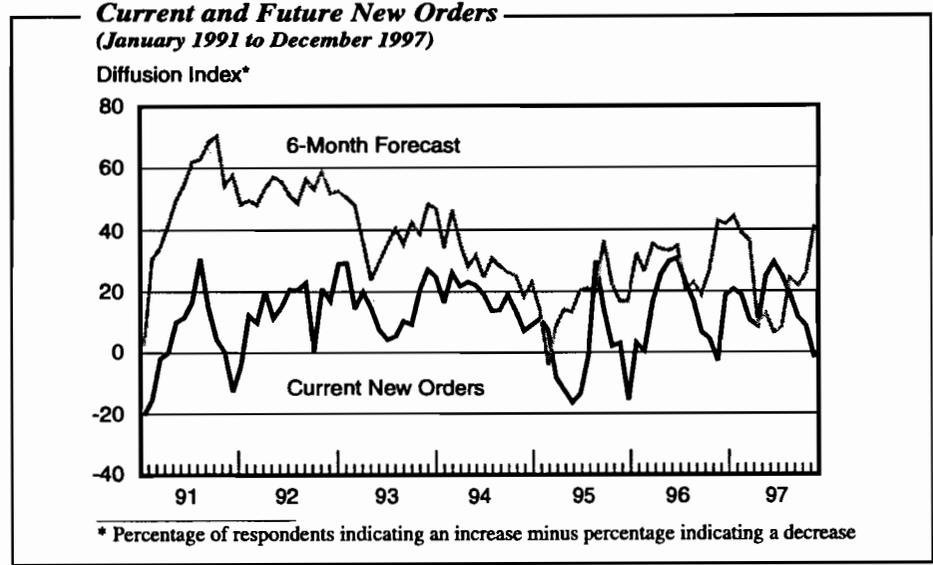


Economic activity in the region's manufacturing sector is holding steady, according to manufacturers surveyed for the December *Business Outlook Survey*. These manufacturers indicate new orders and shipments were virtually flat this month. Despite the lack of growth this month and the reported slowing in recent months, firms are more optimistic about future growth than in previous surveys. They expect manufacturing employment to increase in the next six months as well.

Current Survey Indicators Suggest No Growth This Month

The survey's diffusion index for current general activity declined this month to -1.3, from 10.1 in November. The December reading is the first negative one since December of the previous year, and because it is close to zero, it indicates steady levels of activity this month. Over the past five months, however, the index has declined steadily from the robust growth reported in the first half of the year. Increases in new orders have been slowing as well: the diffusion index for current new orders declined from 8.7 to -1.9 (see Chart). While 27 percent of the firms reported increases in new orders this month, a slightly larger number (29 percent) reported declines. The shipments index also fell but remained slightly positive, declining from 5.7 to 0.7.

Other measures of manufacturing activity also suggest slower activity this month. Survey responses indicate a further reduction in the backlog of



orders; the unfilled orders index was negative for the fourth consecutive month and declined from -13.3 last month to -19.6. Delivery times are also shorter: the percentage of firms reporting faster delivery times (27 percent) exceeds the percentage reporting slower delivery times (10 percent). The delivery time index fell from -11.1 to -16.6.

The only current index showing conflicting evidence of slower activity this month was employment. The current employment index increased from -2.4 to 6.4, the first positive reading in three months. Although nearly 72 percent of firms reported no change in the number of workers, 17 percent reported additions and 11 percent reductions.

Input Prices Are Up; Output Prices Are Near Steady

The survey's two current price indicators moved in opposite directions this month. Despite a modest increase in the indicator for input prices this month, the survey's indicator for manufacturing output prices fell slightly. A large percentage of firms (77 percent) continue to report steady prices for their raw material and other inputs. Nevertheless, the current prices paid index increased modestly, from 17.8 to 23.2. Similarly, 79 percent of firms reported steady output prices. However, the prices

To subscribe to this publication call (215) 574-6428. This publication can be found on the Internet using the World Wide Web at 'http://www.phil.frb.org'.

received index declined from 7.7 to 3.5, suggesting near steady prices for manufactured goods compared with those reported in November.

Six-Month Forecasts Improve Markedly

While most measures of current manufacturing activity weakened this month, forecasts for the next six months notably improved. About 50 percent of the respondents indicated that overall business would increase, and 12 percent expected a decline in activity. The overall future activity index has showed steady improvement in recent months, but it increased markedly this month, rising from 25.4 to 38.3. Firms expect an expansion of demand for manufac-

tured goods: over 56 percent of the polled firms forecast increases in new orders over the next six months, and the future new orders diffusion index increased from 25.5 to 41.5, its highest reading since February (see Chart). On balance, delivery times are expected to remain near current levels, but unfilled orders are expected to rise somewhat over the next six months.

The expected growth in demand will require additional workers at some plants. Nearly 31 percent of the polled executives anticipate hiring additional workers, while only 11 percent expect reductions in the work force. The future employment index increased from 8.8 to 19.4, its highest reading since February. On balance, the firms expect their

employees' average hours worked to increase.

Summary

Despite the reported lack of manufacturing growth this month, survey responses suggest the region's manufacturing sector remains healthy. A slightly higher percentage of firms reported increases in employment this month than reported declines. Moreover, one-fifth of the firms reported plans to hire additional workers in the next six months. Overall measures of expectations regarding new orders and shipments for the next six months also rose to their highest levels in about 10 months.

BUSINESS OUTLOOK SURVEY

**Summary of Returns
December 1997**

	December vs. November				Six Months from Now vs. December			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	25.3	50.7	24.0	-1.3	11.9	34.6	50.2	38.3
Company Business Indicators								
New Orders	29.3	43.3	27.4	-1.9	14.6	28.8	56.1	41.5
Shipments	33.3	32.8	33.9	0.7	16.7	28.6	51.4	34.7
Unfilled Orders	32.5	53.5	13.0	-19.6	13.1	55.9	25.9	12.7
Delivery Time	26.6	62.7	10.0	-16.6	17.9	62.9	15.4	-2.5
Inventories	33.7	42.3	21.2	-12.5	23.5	45.7	27.7	4.3
Prices Paid	0.0	76.5	23.2	23.2	1.6	68.8	24.7	23.0
Prices Received	8.2	79.2	11.6	3.5	10.3	62.8	25.7	15.4
Number of Employees	10.9	71.9	17.2	6.4	11.3	56.4	30.7	19.4
Average Employee Workweek	21.2	63.4	14.6	-6.6	10.7	62.8	25.1	14.4
Capital Expenditures	—	—	—	—	5.1	43.4	32.2	27.1

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.

