

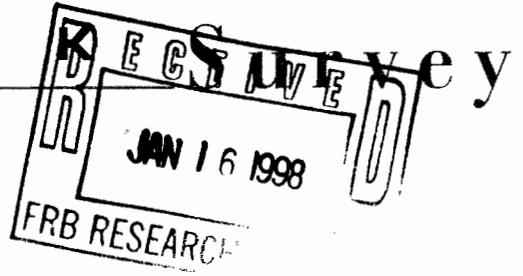
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BUSINESS

Federal Reserve Bank
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O U T L O O K



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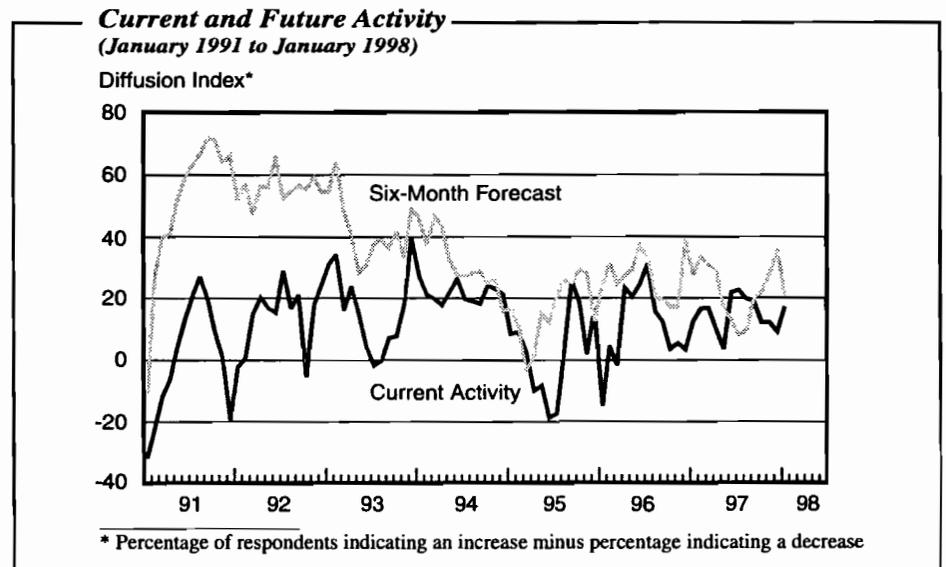
Activity in the region's manufacturing sector is expanding, according to this month's *Business Outlook Survey*. In addition to growth in shipments and new orders, the surveyed firms report relatively stable prices for manufactured goods this month, and fewer firms report increases in prices for raw materials. In contrast to the previous month, delivery times and unfilled orders show a slight increase.

Current Indicators Strengthen

The survey's current general activity index increased from a revised reading of 9.2 in December to 17.3 this month. The increase marked an end to the pattern of decline of the last five months of 1997, a pattern that suggested a slowing in growth (see Chart).¹ A slight improvement in indexes for new orders and shipments this month also points to relatively healthy growth for the survey's manufacturers: the current new orders index increased from a revised 7.5 to 13.3, and the current shipments index increased from a revised 7.0 to 14.6.

Reflecting this pickup in activity, the current indexes for unfilled orders and delivery times increased notably. The current unfilled orders index increased from -16.2 to 7.4, suggesting a rise in unfilled orders. The current delivery time index increased from -15 to 8.5, suggesting slower deliveries. The unfilled orders index was negative over the preceding five months, and the delivery time index was negative for four consecutive months.

Increased manufacturing activity has



not yet had a major impact on manufacturing employment. Nearly the same percentage of firms reported increases in employment (21 percent) as reported declines. The current employment index declined from a revised 8.1 to -0.4. The average workweek index, at 2.8, suggests nearly steady work hours this month.

Price Change Indicators Fall

Survey indicators of changes in manufacturing prices fell notably this month. Prices received for their own manufactured goods are reported steady by 92 percent of respondents this month. A slightly higher percentage reported declines (5 percent) than reported increases (1 percent). The current prices received index fell from a revised 3.1 in December to -4.2. Pressures on input

prices have also moderated this month, according to survey results. The prices paid diffusion index, reflecting prices

¹ Each 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, although all of the historical series were affected by the revisions. Complete historical data for all series are available by request and are also available on our Internet site (see box below). The survey's broadest indicators for general activity — shipments and new orders — suggested a slowing of manufacturing activity in the final quarter of 1997, and the revisions did not appreciably change that conclusion.

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paid by manufacturers for raw materials and other inputs, declined from a revised 20.7 to 9.4, the lowest reading in the past year.

Forecast Remains Positive

Expectations of the region's manufacturers remain generally high: 36 percent expect improvement in activity over the next six months, and 16 percent expect declines. The future activity diffusion index, however, declined somewhat from a revised 35.9 to 20.1 (see Chart). Expectations for both new orders and shipments remain favorable: 49 percent expect growth in new orders,

and 44 percent expect growth in shipments over the next six months.

On balance, firms expect an increase in unfilled orders and some slowing of deliveries over the next six months. To accommodate the growth in new orders and shipments, firms are planning increases in their payrolls and work hours. About 32 percent expect increases in the number of workers employed; 12 percent expect reductions. The future employment index increased from a revised 17.1 in December to 20.4, its highest reading in 11 months. The future average workweek index also rose from 11.4 to 13.6.

Summary

Surveyed manufacturers report growth in their businesses this month, and most current indicators rebounded somewhat from levels recorded over the previous three months. Indeed, responses regarding unfilled orders and delivery times suggest a pickup in activity this month. Manufacturing prices continue to show no upward pressures. Despite a decline in some of the survey's six-month indicators, overall expectations remain positive, and for the past three months, employment expectations have shown some improvement over those of the previous six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns January 1998

	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?	14.9	53.0	32.2	17.3	15.7	46.6	35.8	20.1
Company Business Indicators								
New Orders	20.0	43.1	33.3	13.3	15.7	35.7	48.6	32.9
Shipments	18.2	48.0	32.8	14.6	18.1	35.4	44.2	26.1
Unfilled Orders	13.7	60.3	21.2	7.4	14.2	61.1	23.5	9.3
Delivery Time	12.5	66.4	21.1	8.5	12.9	60.9	22.7	9.8
Inventories	28.5	42.9	28.1	-0.4	21.0	52.8	26.2	5.2
Prices Paid	2.7	80.1	12.1	9.4	5.6	54.4	38.3	32.7
Prices Received	5.1	91.5	0.9	-4.2	8.6	65.5	24.7	16.1
Number of Employees	21.3	57.8	20.9	-0.4	12.0	51.2	32.3	20.4
Average Employee Workweek	16.7	62.6	19.5	2.8	15.3	54.5	28.9	13.6
Capital Expenditures	—	—	—	—	15.0	47.6	30.9	15.8

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
(1990 - 1997)**

Current General Activity

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	-7.5	-22.0	-22.0	-9.0	-16.5	-8.6	-17.5	-18.2	-43.3	-48.3	-27.2	-37.6
1991	-31.9	-22.0	-11.8	-6.4	3.9	12.9	20.8	27.0	20.0	9.3	1.1	-19.4
1992	-2.2	0.6	14.8	20.4	17.0	15.3	28.9	16.8	21.1	-5.4	17.7	24.3
1993	31.0	34.3	16.1	23.9	14.8	4.2	-1.7	-0.1	7.2	7.8	18.0	40.1
1994	27.0	21.2	19.8	17.7	22.0	26.4	19.7	19.0	18.2	24.2	23.0	21.4
1995	8.5	9.0	2.7	-10.0	-8.3	-18.7	-17.4	2.3	25.7	18.8	1.9	16.6
1996	-14.9	4.7	-1.6	23.5	20.5	24.5	31.2	15.7	12.4	3.6	5.5	3.4
1997	12.3	16.6	16.9	9.9	3.6	22.0	22.7	19.9	18.9	12.2	12.3	9.2

Current Employment

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	-8.7	0.5	-16.1	-10.0	-14.4	-15.2	-16.1	-19.2	-22.5	-20.2	-26.4	-21.7
1991	-21.1	-21.6	-18.5	-24.6	-11.1	-9.2	-13.5	-8.2	0.9	-11.5	-9.4	-21.4
1992	-7.9	-19.9	-4.7	-6.2	-4.4	7.6	3.5	-0.6	0.2	-10.2	-8.6	-0.2
1993	0.0	3.7	-4.8	-2.9	2.9	-9.0	-12.2	-13.7	-7.4	4.9	-5.6	3.7
1994	6.2	4.1	6.0	9.2	5.5	3.4	4.6	4.2	1.9	8.8	10.0	2.2
1995	1.6	10.0	2.1	-18.3	-14.3	-13.4	-20.1	-12.9	8.2	0.5	-4.9	-11.3
1996	-9.2	-7.7	-1.5	0.7	5.0	4.0	7.6	3.9	7.1	-3.7	-0.7	-1.6
1997	4.4	2.5	8.4	5.5	8.1	10.1	5.3	12.4	-3.2	-2.9	-0.8	8.1

Current Prices Paid

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	21.3	22.1	26.9	29.3	26.7	6.0	26.6	16.3	41.8	42.1	39.1	39.1
1991	14.5	8.9	7.0	11.6	0.0	4.2	5.3	9.1	8.0	13.7	7.7	9.7
1992	-2.7	5.0	13.3	9.0	16.9	13.2	10.2	14.2	7.6	3.0	0.4	4.2
1993	6.2	19.1	14.6	14.6	17.8	15.2	17.8	8.3	12.6	2.6	12.1	12.5
1994	21.5	27.7	16.4	33.2	28.3	31.6	36.8	45.4	45.0	51.2	55.5	43.7
1995	52.8	47.1	42.9	33.0	31.3	26.0	23.4	16.1	14.8	23.9	10.6	2.9
1996	8.9	-2.0	1.2	12.0	12.2	16.2	12.7	5.5	17.5	17.5	14.0	12.2
1997	2.9	10.3	13.2	19.0	16.6	15.4	18.9	14.7	15.1	14.1	18.3	20.7

Current Prices Received

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	1.9	3.7	4.3	6.1	5.6	-1.0	-7.5	2.1	1.3	5.0	6.4	-4.1
1991	-6.9	-8.6	-10.8	-16.8	-18.0	-11.4	-7.6	-8.2	-2.7	-2.7	-7.6	-1.4
1992	-17.9	-16.1	-5.1	-2.4	0.2	2.2	-2.3	0.6	-2.5	-6.2	-8.4	-4.4
1993	3.2	1.6	1.4	6.5	1.6	-1.8	-0.3	-7.1	-6.1	-6.5	-1.0	1.3
1994	12.8	14.8	9.4	9.9	12.2	11.7	16.2	23.2	16.8	25.1	22.8	16.9
1995	20.2	15.1	15.1	7.2	6.9	-0.4	-5.0	-5.0	3.2	1.2	-5.6	-5.3
1996	-11.7	-17.1	-9.1	-3.5	-1.8	-1.3	-1.4	-2.8	3.4	3.2	-1.0	3.2
1997	-3.7	2.0	-3.1	0.7	0.2	3.1	4.0	0.9	-3.4	1.0	6.2	3.1

Future General Activity

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	9.6	-0.1	13.2	13.6	13.7	18.6	5.2	1.7	-17.7	-11.0	6.3	12.0
1991	-11.2	26.9	40.1	40.7	51.7	58.9	63.3	66.6	71.6	71.3	64.0	66.2
1992	52.0	57.4	47.3	56.4	55.9	65.9	52.6	54.4	56.6	55.2	59.5	54.4
1993	54.7	64.6	48.0	41.0	28.1	31.1	37.7	39.2	36.7	41.8	33.4	49.5
1994	45.7	37.3	46.7	43.3	32.2	27.5	27.1	28.3	28.6	24.9	26.1	15.8
1995	16.8	10.9	-3.4	1.3	15.0	12.4	20.1	25.6	25.2	29.3	28.0	12.4
1996	24.0	31.4	24.9	27.5	29.1	37.1	33.2	20.5	19.3	17.1	17.3	39.1
1997	27.5	33.6	31.1	28.9	17.1	12.7	8.1	9.6	20.0	21.9	28.1	35.9