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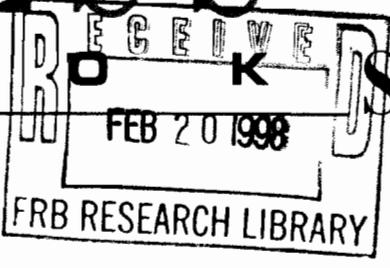
C Aldrich

Federal Reserve Bank
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BUSINESS

O U T L O O K S



Survey

February 1998

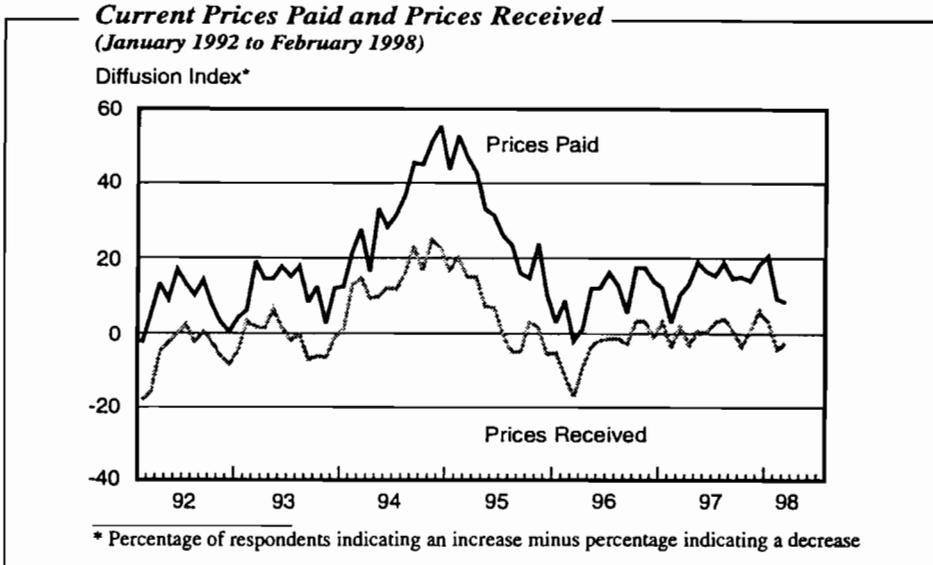
The manufacturers polled for this month's *Business Outlook Survey* indicate continuing increases in current new orders and shipments. Moreover, more firms report increases in employment this month. Responses also suggest further moderation in price pressures. In addition, forecasts for the next six months suggest that manufacturers expect moderate growth to continue.

Current Indicators Suggest Moderate Growth

The survey's current activity index declined to 12.8 this month from 17.3 in January. Although 49 percent of the surveyed manufacturers reported no change in activity from last month, the percentage reporting increases (31 percent) was greater than the percentage reporting declines (19 percent). Other current indicators, however, showed some improvement. The current new orders index increased to 24.2 from 13.3. In January, 33 percent of firms reported increases in new orders, but more than 43 percent reported increases this month. The current shipments index also increased to 17.5 from 14.6.

Unfilled orders are reported near steady this month: 20 percent report a higher level of unfilled orders and 18 percent report a lower level. The current unfilled orders index also declined to 2.7 from 7.4. Delivery times fell as well: the index for delivery times moved to -9.4 from 8.5.

Paralleling the improvement in the indexes for new orders and shipment, the



current employment index increased significantly to 15.1 from -0.4. Nearly 20 percent of the manufacturers reported an increase in employment this month; only 4 percent reported declines. Moreover, a slightly higher percentage of firms reported increases in the average hours worked (20 percent) than reported decreases (11 percent).

Survey Measures Suggest Waning Price Pressures

Responses of surveyed firms suggest that pressure on input prices has lessened in recent months. The diffusion index for current prices paid declined for the second consecutive month and is now at a lower level than that which prevailed for most of 1997 (see Chart). A large percentage of firms (78 percent) reported

no change in input prices this month, although 15 percent reported increases and 7 percent reported declines. Regarding prices received for their manufactured goods, 7 percent of firms reported declines and 4 percent reported increases. The prices received diffusion index, which increased slightly to -2.3 from -4.2, has been negative in three of the last six months.

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Manufacturers Remain Optimistic

Expectations among regional manufacturers remain positive: more than 42 percent expect an improvement in general activity over the next six months, and 19 percent expect a deterioration. The future general activity index increased modestly to 23 from 20.1. Expectations for increases in new orders and shipments also remain favorable: about 48 percent expect increases over the next six months.

Firms also expect an increase in unfilled orders over the next six months,

although they forecast delivery times will remain near current levels. Expectations regarding future employment growth have shown improvement over the past five months. Nearly 29 percent of the firms polled expect increases in the number of workers over the next six months; 10 percent expect decreases. The future employment index declined only modestly to 18.6 from 20.4. On balance, firms expect increases in average hours worked over the next six months: 30 percent expect increases; 16 percent expect decreases.

Summary

Most indicators suggest a continuation of moderate economic growth for the region's manufacturing sector. Although indexes for both current new orders and employment showed marked improvement this month, overall survey responses do not suggest a dramatic improvement in overall economic activity. Furthermore, measures of economic expectations reflect continued optimism and have not shown any dramatic changes in recent months.

BUSINESS OUTLOOK SURVEY

Summary of Returns February 1998

	February vs. January				Six Months from Now vs. February			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	18.6	48.7	31.4	12.8	19.3	38.3	42.4	23.0
Company Business Indicators								
New Orders	19.0	36.7	43.1	24.2	18.5	32.1	47.7	29.2
Shipments	18.3	42.0	35.8	17.5	17.6	27.8	48.5	30.9
Unfilled Orders	17.5	59.5	20.2	2.7	17.5	52.1	28.8	11.3
Delivery Time	19.7	69.9	10.3	-9.4	21.5	58.7	19.8	-1.6
Inventories	27.6	53.0	19.4	-8.3	26.9	49.4	21.7	-5.1
Prices Paid	6.8	77.9	15.3	8.4	8.6	61.9	29.5	20.8
Prices Received	6.6	89.1	4.3	-2.3	13.3	56.3	28.7	15.4
Number of Employees	4.4	74.5	19.5	15.1	10.3	57.8	28.9	18.6
Average Employee Workweek	11.4	68.0	19.7	8.3	16.0	54.5	29.5	13.5
Capital Expenditures	—	—	—	—	15.6	45.5	32.9	17.4

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.