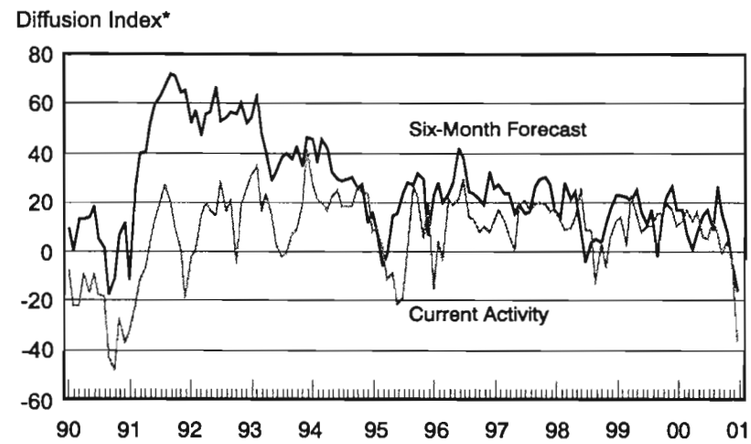
BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

January 2001

Regional manufacturing firms report declines in current activity this month, and most indicators dropped precipitously from the previous survey. In addition to broad-based declines in shipments and new orders, significant declines in employment were also reported this month. Measures of the firms' six-month forecasts fell to their lowest readings since 1990, suggesting that the declines are not expected to be temporary.

Chart
Current and Future Manufacturing Activity Indexes
(January 1990 to January 2001)



* Percentage of respondents indicating an increase minus percentage indicating a decrease

Current Indicators Fall Dramatically

The current index of general activity fell sharply this month from a revised –4.2 in December to –36.8 in January.[1] Fifty percent of the manufacturers polled reported declines in activity compared with last month; only 13 percent reported increases. This month's reading of –36.8 marks the lowest level of the current activity index since December 1990 (see Chart) and the second largest one-month decline in the 32-year history of the survey. Similar declines were also recorded for indexes of new orders and shipments. The current shipments index fell from a revised 3.1 in December to –30.8. Similarly, the new orders index fell from a revised 4.0 in December to –30.9 this month. Forty-six percent of firms reported declines in new orders this month, and 49 percent reported declines in shipments.

The broad-based declines in new orders and shipments were accompanied by significant declines in the indexes for both unfilled orders and delivery times. The current unfilled orders index fell for a second consecutive month, from a revised –14.3 in December to –25.6. The current delivery times index fell from –10.3 to –22.0, marking its eighth consecutive month in the negative range.

Declines in demand for manufactured goods are accompanied by reported declines in employment this month. Nearly 29 percent of the firms reported declines in employment this month; 5 percent reported increases. The current employment index fell from a revised -12.4 in December to –23.5 and has fallen sharply over the past two months. The index is now at its lowest reading since April 1991. Weakness is also evident this month in the firms' responses regarding the average workweek: 37 percent of firms reported declines in average hours

[1] Each year, the Federal Reserve Bank of Philadelphia revises historical data for the *Business Outlook Survey* after calculating new seasonal adjustment factors. The supplemental tables included with this month's release contain revised data for all of the current diffusion indexes and the future general activity indexes. Since all of the series were affected by the revisions, the complete revised series as well as revised historical data prior to 1995 are available on our Internet site with detailed instructions for downloading. The address is http://www.phil.frb.org/econ/bos/boshistory.html.

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worked, 10 percent reported increases, and the average workweek index fell from a revised –13.9 in December to –27.3.

Moderating Price Pressures Accompany Declines

Upward price pressures on inputs continue to recede, according to the manufacturers polled. The percentage of firms reporting input price increases (16 percent) exceeds the percentage reporting decreases (3 percent). The current prices paid index declined from a revised 15.8 in December to 12.9 this month and marks the fifth consecutive decline in the index.

A larger share of firms reported declines in prices of their own manufactured goods this month. More than 78 percent of the firms surveyed indicated no change in the prices of their own manufactured goods, but the percentage reporting lower prices (14 percent) is slightly greater than the percentage reporting higher prices (8 percent). The current prices received index fell from a revised –3.2 in December to –5.5 this month and has now recorded negative readings in four of the last five months.

Manufacturing Forecasts Deteriorate Further

Declines in current activity are accompanied by significant deterioration in manufacturers' forecasts this month. The future index of general activity declined from a revised –4.2 in December to –16.3, the lowest reading since September 1990 (see Chart). Although 37 percent of firms report that they expect no change in activity over the next six months, the percentage expecting decreases (36 percent) exceeds the percentage expecting increases (20 percent). Firms are also divided in their forecasts of new orders and shipments, but the percentage of firms expecting declines exceeds the percentage expecting increases for both. The future new orders index declined from a revised –0.9 in December to –4.0, and the future shipments index fell from a revised 4.3 to –6.1.

Firms' forecasts for employment growth over the next six months also dropped sharply. The future employment index fell from a revised 4.4 in December to –20.9 this month, the lowest reading since December 1990. Twenty-seven percent of firms expect decreases in employment over the next six months, and only 6 percent expect increases.

Summary

Indicators of current activity in the region's manufacturing sector dropped sharply this month. Nearly half of the institutions surveyed reported decreases in new orders and shipments. The percentage of firms reporting employment declines has risen considerably in the past two months. Declines in manufacturing business may be contributing to easing price pressures in the manufacturing sector—input price pressures moderated again this month, and slightly more firms report declines in prices of their own products than report increases. Firms' forecasts for the next six months deteriorated markedly this month, and responses suggest that further decreases are expected. An increasing share of firms report plans to reduce employment.

BUSINESS OUTLOOK SURVEY

Summary of Returns
January 2001

	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?	50.1	33.2	13.3	-36.8	36.4	37.1	20.1	-16.3
Company Business Indicators								
New Orders	46.0	35.8	15.1	-30.9	33.6	35.6	29.6	-4.0
Shipments	48.5	31.3	17.7	-30.8	29.4	42.4	23.3	-6.1
Unfilled Orders	35.5	52.7	9.9	-25.6	26.2	56.1	14.9	-11.2
Delivery Times	28.6	64.8	6.6	-22.0	22.7	74.0	2.2	-20.5
Inventories	29.9	51.1	16.6	-13.2	24.3	54.1	18.8	-5.5
Prices Paid	3.4	80.2	16.4	12.9	7.8	56.6	33.5	25.8
Prices Received	13.7	78.1	8.2	-5.5	13.6	57.1	25.8	12.2
Number of Employees	28.5	65.7	5.0	-23.5	26.7	67.2	5.8	-20.9
Average Employee Workweek	37.2	51.1	9.9	-27.3	25.6	53.2	19.2	-6.4
Capital Expenditures	—	—	—	—	17.0	41.7	21.5	4.5

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.

Business Outlook Survey
Selected Revised Diffusion Indexes
(1995-2000)*

Current General Activity

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	8.4	9.3	1.8	-11.2	-8.7	-20.8	-19.3	1.1	26.2	21.9	5.2	19.6
1996	-15.2	4.8	-3.8	21.4	19.3	21.5	29.6	13.8	13.0	8.5	10.7	8.1
1997	12.2	16.8	12.6	7.0	1.0	18.8	20.7	16.9	19.3	19.8	19.2	16.3
1998	17.6	12.2	9.2	9.7	13.7	25.6	9.1	9.0	-13.4	3.8	-6.2	5.8
1999	12.5	13.7	2.5	22.5	14.5	8.3	10.6	10.5	15.3	15.2	18.8	16.7
2000	10.2	12.8	16.9	12.7	16.2	5.7	5.3	12.6	7.2	-0.5	4.7	-4.2

Current New Orders

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	8.3	11.0	6.6	-7.4	-13.0	-20.6	-16.6	-7.1	30.1	16.5	7.1	13.6
1996	-16.6	1.2	-1.1	17.1	24.1	23.4	26.7	16.1	17.7	9.9	11.6	11.0
1997	18.5	17.8	16.7	10.7	5.5	17.0	25.1	17.3	20.8	15.9	18.3	15.3
1998	13.5	21.1	16.2	12.4	16.5	17.7	9.5	10.8	-1.5	5.1	-5.8	6.0
1999	16.2	16.5	21.6	20.4	20.0	14.8	11.3	16.8	10.1	24.7	22.1	15.7
2000	2.1	9.6	19.7	18.6	15.5	6.9	7.9	12.5	14.2	-1.7	4.9	4.0

Current Shipments

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	9.8	25.5	11.9	-2.2	-2.3	-8.0	-13.0	9.1	27.5	16.0	-1.6	13.2
1996	10.9	13.3	-3.1	25.3	27.6	27.8	33.5	17.0	25.3	12.0	16.0	12.1
1997	14.4	12.4	19.2	16.1	10.4	10.6	25.3	17.0	16.7	13.4	12.0	11.7
1998	15.9	17.4	12.5	14.8	13.0	24.0	6.2	17.8	9.9	13.0	-6.0	13.6
1999	16.3	15.6	13.0	14.0	19.3	14.6	13.8	14.6	11.6	21.2	24.2	14.5
2000	15.4	22.9	22.5	18.3	17.3	9.5	11.5	11.4	17.8	-13.6	10.5	3.1

Current Unfilled Orders

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	-3.3	-11.8	-12.6	-27.9	-18.4	-28.7	-42.7	-14.7	5.4	-1.2	-4.7	-5.1
1996	-31.8	-17.3	-12.3	-13.4	-5.6	5.9	-2.0	-1.5	3.8	-9.9	-5.6	-6.3
1997	-10.7	-5.2	-10.1	-6.2	-6.6	-2.4	-0.7	-5.0	-1.1	-6.7	-5.7	-7.6
1998	8.2	-0.2	-3.0	-4.9	-0.1	2.5	5.2	-7.8	-8.0	-9.2	-10.6	-4.4
1999	-5.2	-5.7	-3.1	-0.9	-5.1	-7.1	-6.5	0.3	0.0	1.7	0.9	-0.8
2000	-2.7	4.6	2.6	0.2	-3.5	-10.8	-13.2	-2.3	-13.7	-0.4	1.7	-14.3

Current Delivery Times

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	-8.9	-8.7	-15.2	-15.6	-16.7	-24.9	-23.3	-16.8	-7.2	-4.8	-1.9	-0.8
1996	-9.7	-12.5	-3.5	-14.1	-7.8	0.6	1.4	-5.9	-3.7	-12.8	-8.1	-6.9
1997	-11.3	-5.2	-3.3	-7.8	-12.4	-4.4	-5.1	-2.4	0.2	-8.4	-5.4	-7.6
1998	5.6	-5.8	-4.1	-4.4	2.1	-6.2	5.2	-0.3	-6.0	-1.2	-7.2	-6.2
1999	6.2	-3.2	-5.7	0.3	-4.3	-1.0	-5.2	-2.8	-5.4	-6.7	0.5	-6.5
2000	-6.5	-0.7	0.2	1.2	8.4	-10.1	-8.3	-11.9	-15.4	-6.8	-8.9	-10.3

* Revised historical data prior to 1995 and revisions to other series are available on the Bank's Internet site at http://www.phil.frb.org/econ/bos/boshistory.html.

Current Inventories												
Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	-13.7	-3.1	-10.3	-9.6	-17.1	-6.2	-15.5	-17.0	-6.4	-1.4	1.3	-15.5
1996	-7.6	-13.4	-12.7	-16.9	-10.5	-12.9	-6.7	-15.8	-12.1	-4.2	-12.0	-2.9
1997	-5.1	-8.1	-13.3	-7.7	-13.3	-5.2	-6.2	-5.1	-4.3	-11.8	-6.9	-8.3
1998	-5.4	-7.4	-2.8	-16.2	-1.0	-6.9	-10.1	-14.1	-15.2	-14.2	-13.8	-15.3
1999	-18.8	-10.5	-9.6	-0.9	-15.5	-12.3	-10.2	-6.4	-3.1	-8.3	8.6	3.8
2000	2.4	-7.9	4.2	6.6	5.8	-2.3	-2.1	-11.2	-2.5	8.3	-4.2	-9.1

Current Prices Paid												
Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	54.8	47.5	42.4	32.7	30.9	25.8	23.1	16.6	13.9	24.7	10.3	2.3
1996	12.2	-1.1	-0.1	11.1	11.3	15.3	11.9	6.8	16.1	18.7	13.6	11.5
1997	7.7	12.2	11.8	16.9	15.3	13.8	17.6	16.9	13.4	15.9	17.7	20.1
1998	15.9	11.3	10.5	3.3	2.9	3.7	-4.4	-7.4	-4.4	-12.0	-9.8	-8.6
1999	-8.3	-6.7	2.0	2.8	3.4	10.8	15.0	12.9	12.0	23.8	25.1	25.3
2000	23.5	39.0	32.4	32.2	30.3	30.0	26.6	28.7	24.8	21.4	19.9	15.8

Current Prices Received												
Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	22.9	15.3	15.0	6.3	6.2	-0.8	-5.3	-5.1	3.3	1.1	-5.9	-6.0
1996	-7.6	-16.5	-9.3	-5.1	-3.1	-1.8	-1.7	-3.1	4.0	3.3	-1.7	2.1
1997	1.9	3.2	-3.4	-2.2	-1.6	2.1	3.4	0.6	-1.4	1.0	5.0	1.8
1998	2.6	-0.3	-1.8	0.7	-1.0	-0.3	-6.7	-8.4	-11.0	-12.2	-14.8	-12.4
1999	-15.3	-7.0	-8.3	-7.9	-6.5	-7.5	-4.1	2.4	2.4	4.1	9.3	2.4
2000	7.3	8.5	8.8	16.7	7.6	9.4	6.2	1.5	-0.3	1.4	-1.1	-3.2

Current Number of Employees												
Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	1.7	9.8	0.3	-18.6	-14.7	-13.9	-20.1	-13.1	8.8	2.4	-3.3	-11.0
1996	-9.1	-8.0	-4.1	0.1	4.0	3.1	7.7	3.2	7.7	-0.4	2.1	-1.1
1997	4.7	2.4	4.5	4.4	6.5	8.8	5.7	10.4	-2.6	2.5	3.2	9.0
1998	0.1	15.0	9.3	-5.0	4.9	6.0	5.3	6.7	1.0	7.9	2.0	2.1
1999	0.9	-0.7	-0.2	2.6	4.7	2.1	2.2	4.3	9.3	8.3	15.4	13.7
2000	10.4	14.9	15.4	13.2	9.3	3.4	8.6	14.1	7.8	0.5	-6.0	-12.4

Current Average Employee Workweek												
Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	-7.2	-1.0	-7.3	-11.5	-19.8	-16.4	-22.3	-5.1	-2.5	-5.2	-6.2	-10.9
1996	-9.1	-11.5	-13.7	2.4	4.8	1.3	5.7	-0.5	0.2	-5.8	-4.1	1.9
1997	6.1	-0.9	-0.2	-0.9	-2.7	-3.5	-0.8	0.3	-2.6	-0.4	-1.2	1.9
1998	5.7	8.0	-0.2	-10.1	-0.6	4.4	-2.7	-2.2	-2.9	-1.0	-17.2	6.9
1999	-7.7	-8.0	7.2	6.5	2.8	6.1	0.3	4.5	-2.0	5.1	6.4	1.0
2000	-0.4	5.1	15.0	3.3	7.2	-4.3	6.7	0.0	1.3	-11.1	-0.6	-13.9

Future General Activity												
Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1995	16.5	8.8	-5.8	-1.0	14.8	15.6	23.5	27.7	27.5	31.8	29.3	6.9
1996	22.9	28.2	20.0	23.8	28.1	41.9	38.5	24.5	23.7	21.7	18.8	32.1
1997	25.6	27.4	23.2	23.4	15.6	19.3	15.2	16.0	26.2	29.1	30.4	27.0
1998	16.6	14.3	27.6	21.5	24.3	8.0	-4.4	3.9	5.2	4.0	11.1	17.1
1999	22.7	22.8	22.0	20.4	25.3	16.2	10.8	17.2	-2.4	13.7	22.2	26.6
2000	16.8	16.7	7.5	0.9	7.2	14.5	17.1	9.0	26.4	15.5	7.3	-4.2