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BUSINESS OUTLOOK SURVEY

Summary of Returns

March 1977

This Summary of Returns reports on the March responses to the Business Outlook Survey conducted by the Federal Reserve Bank of Philadelphia. Its purpose is to provide an insight into Third District business conditions. The survey sample polls manufacturing firms with 500 or more employees.

Economic activity in the region's manufacturing sector is clearly expanding and employment is stronger than it has been for some time. One-half of the executives in the current survey say that business conditions are better this month compared to one-third reporting improvement in February. Increases in new orders are reported by 43 percent of the respondents, and 48 percent report increases in shipments. Last month, new orders and shipments had increased at one-third of the firms surveyed. Inventories are unchanged this month after declining in February.

The improvement in industrial activity is reflected in employment. Close to one-fourth of the businessmen surveyed report increases in work forces and one-fifth indicate some lengthening of the workweek. This is the first time since last summer that concurrent increases in work forces and the average workweek have been reported.

Over the next two quarters, manufacturers look for additional expansion. Eight out of 10 foresee a better business climate by September. New orders are expected to climb at 79 percent of the firms surveyed and shipments are expected to increase at 71 percent. At the same time, higher levels of inventories are projected and further improvement in employment is anticipated. One-half of the respondents plan to hire additional employees while more than 40 percent foresee a longer workweek. Increases during the next six months in spending for plant and equipment are projected

at 43 percent of the firms polled--down fractionally from last month.

Prices in manufacturing continue to climb and increases are more widespread than in February. Fifty percent of the respondents report higher prices for supplies this month while 31 percent report higher prices for their finished products. Last month, 41 percent indicated higher input prices and 16 percent indicated higher output prices. By September, 86 percent look for higher prices for supplies and 74 percent foresee charging higher prices for their outputs. Both of these have declined by about 10 percentage points from the proportions reported in last month's survey.

To recap, activity in the region's manufacturing sector is expanding, and the result is an improving employment picture. Over the next half-year, further gains in output and employment are projected along with additional increases in prices.

### BUSINESS OUTLOOK SURVEY

#### SUMMARY OF RETURNS MARCH 1977

| INDICATOR  | March<br>vs.<br>February |              |          | Six Months from Now<br>vs.<br>March |              |          |
|--|--------------------------|--------------|----------|-------------------------------------|--------------|----------|
|  | Decrease                 | No<br>Change | Increase | Decrease                            | No<br>Change | Increase |
| <b>GENERAL BUSINESS CONDITIONS</b>                                 |                          |              |          |                                     |              |          |
| What is your evaluation of the level of general business activity? | 7.1                      | 42.9         | 50.0     | 0.0                                 | 16.7         | 81.0     |
| <b>COMPANY BUSINESS INDICATORS</b>                                 |                          |              |          |                                     |              |          |
| New Orders   | 11.9                     | 42.9         | 42.9     | 4.8                                 | 11.9         | 78.6     |
| Shipments  | 7.1                      | 42.9         | 47.6     | 4.8                                 | 19.0         | 71.4     |
| Unfilled Orders  | 9.5                      | 64.3         | 21.4     | 4.8                                 | 33.3         | 57.1     |
| Delivery Time  | 7.1                      | 78.6         | 11.9     | 7.1                                 | 57.1         | 31.0     |
| Inventories  | 23.8                     | 57.1         | 19.0     | 16.7                                | 42.9         | 38.1     |
| Prices Paid  | 0.0                      | 50.0         | 50.0     | 0.0                                 | 9.5          | 85.7     |
| Prices Received  | 4.8                      | 61.9         | 31.0     | 0.0                                 | 21.4         | 73.8     |
| Number of Employees  | 2.4                      | 73.8         | 23.8     | 2.4                                 | 42.9         | 50.0     |
| Average Employee Workweek  | 0.0                      | 81.0         | 19.0     | 2.4                                 | 50.0         | 42.9     |
| Capital Expenditures   |                          |              |          | 2.4                                 | 45.2         | 42.9     |

Note: Items may not add to 100 per cent because of omission by respondents.

## IMPACT OF NATURAL GAS SHORTAGE

The natural gas shortage had only a moderate impact on industrial production in the Third Federal Reserve District, and prospects for making up shortfalls are good. These are the results of a survey of 34 manufacturing firms whose payrolls number 500 or more. The survey was conducted during the latter part of February and early March.

Out of 34 firms responding to the survey, 18 say that production levels were not affected by the shortage. Six of these firms do not use natural gas while 12 were able to switch to alternative fuels.

Of the 16 firms affected, mostly in primary metals and food products, disruption of normal activity was apparently modest. Output levels were reduced by no more than 10 percent below normal at eight of the companies affected and were off between 10 percent and 25 percent at four of the 16 firms. Ten respondents say that employment was reduced as a result, and working hours were shortened at the same number of affected companies. Only two firms reported complete shutdowns, and one of these lasted just one week.

According to the respondents, prospects for making up shortfalls in output within the next six months are good. Thirteen of the 16 respondents who cut back production are planning to make up one-half or more of the lost output with seven of these planning to recover the entire amount. Two firms expect to recover only one-fourth of their shortfall, and one firm plans no catch-up. However, output at this firm was less than 10 percent below normal.

In general, if these results hold for the entire manufacturing sector in the region, economic losses arising from the natural gas shortage appear to be less than originally feared.

TABLE OF RESPONSES

Number of Firms Responding:

|   |  |    |
|---|--|----|
| A. Has the natural gas shortage affected your production activity?                  |  |    |
| (1) No  |  | 18 |
| (a) Don't use natural gas   |  | 6  |
| (b) Use natural gas but no gas curtailment  |  | 0  |
| (c) Natural gas curtailed--successfully switched to other fuels.                    |  | 12 |
| (2) Yes   |  | 16 |
| (a) 0-10% below normal  |  | 8  |
| (b) 10-25% below normal   |  | 4  |
| (c) More than 25% below normal  |  | 2  |
| (d) Complete shutdown   |  | 2  |
| B. If your production has been affected, what has been the impact on employment?    |  |    |
| (1) Hours worked:   |  |    |
| (a) No reduction  |  | 4  |
| (b) Some reduction  |  | 10 |
| (2) Work force:   |  |    |
| (a) No reduction  |  | 4  |
| (b) Some reduction  |  | 10 |
| (3) Complete shutdown   |  | 2  |
| C. How much of any production <u>lost</u> will be made up within the next 6 months? |  |    |
| (1) 0%  |  | 1  |
| (2) 25%   |  | 2  |
| (3) 50%   |  | 5  |
| (4) 75%   |  | 1  |
| (5) 100%  |  | 7  |