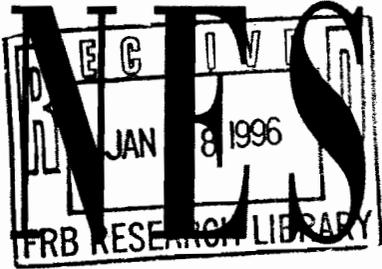


BUSINESS



Federal Reserve Bank
of Philadelphia

OUTLOOK Survey

January 1996

Responses to the *Business Outlook Survey* indicate declines in regional manufacturing this month.¹ Following five months of positive readings, most of the manufacturing survey's current indicators turned negative this month. Despite reported weakening, however, most future indicators, except employment, reflect optimism for continued growth.

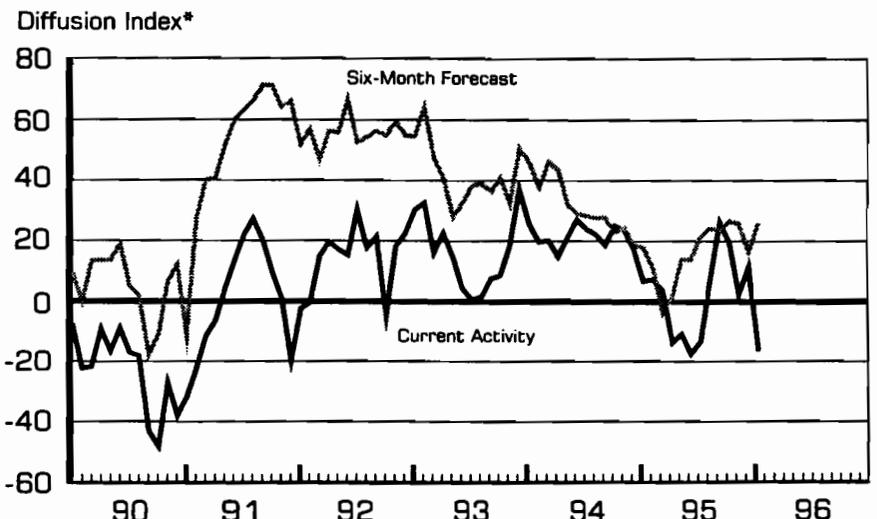
Survey's Current Indexes Suggest Declines

The survey's broadest measure, the current general activity diffusion index, declined from a revised reading of 11.3 in December to -16.6.² While 47 percent of the manufacturers polled report no change in activity from the previous month, the percentage reporting declines (34 percent) was larger than the percentage reporting increases (18 percent). This marks the first negative reading in the index since last July (see Chart).

Other current indicators point to manufacturing weakness this month. The current new orders index fell from a revised 7.1 in December to -20. The number reporting declines in orders this month (34 percent) was more than twice the number reporting increases (14 percent). The current shipments index fell more modestly and remained positive, declining from a revised 8.2 in December to 4.2.

Weakness is also evident in the manufacturers' responses regarding unfilled orders and delivery times. On balance, the backlog of unfilled orders is in

Current and Future Activity Indexes (January 1990 to January 1996)



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

decline, with the current unfilled orders index falling precipitously from -5.4 to -36.1. Delivery times are also shorter this month; the index for current delivery times fell from -1.6 to -11.1. The current inventories index increased from -13.5 to 0.6.

Manufacturing employment continues to decline, according to those polled. Although 69 percent reported steady employment, 20 percent reported declines, and only 9 percent reported increases. The current employment index, at -10.5, is near

its revised level of -11.5 in December and has remained negative in nine of the past 10 months. Manufacturers also report declines in the average workweek this month.

Survey Price Measures Are Well Behaved

Surveyed manufacturers indicate virtually no upward pressure on manufacturing prices. Concerning prices received for their own manufactured goods, a larger percentage report lower prices (20 percent)

¹ Nearly all of the responses to the January survey were completed before the recent blizzard, which paralyzed most of the mid-Atlantic region.

² Each year, the Federal Reserve Bank of Philadelphia revises historical time series for the *Business Outlook Survey* after calculating new seasonal adjustment factors. Historical data are available by request and are now available at our Internet address (see box at right).

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than report higher prices (8 percent). The current prices received index, which has remained negative for six of the past eight months, is now at its lowest level in nearly four years. Although 18 percent of the polled firms expect price increases over the next six months, 10 percent expect a decline. The future prices received index, at 7.5, is near its lowest level in the 28-year history of the *Business Outlook Survey*.

Concerning prices paid for raw materials and other purchased inputs, nearly 67 percent of those polled report no change from December, but the number reporting increases (22 percent) was greater than that reporting declines (11 percent). The current prices paid index increased to 11.4 from a revised December reading of 4.5 but remains at a relatively low level.

Manufacturers' Forecasts Remain Moderately Optimistic

Although current activity is reported to be lower this month, optimism regarding

the next six months remains. Nearly 43 percent of the manufacturers expect increases in activity over the next six months; only 17 percent expect declines. The future general activity index increased to 26.0 from a revised reading of 16.5 in December.

Diffusion indexes for forecasts of shipments and new orders were also higher than in December. About 40 percent of those polled expect increases in new orders and shipments over the next six months. Manufacturers expect to trim inventories: 33 percent report that inventories will decline; 7 percent expect them to increase.

A deterioration in current conditions may have dimmed firms' expectations for future employment. Firms are less optimistic regarding growth in employment over the next six months: although 66 percent expect to keep employment at current levels, only 9 percent expect to hire additional workers and 22 percent expect to make reductions. The future employment

diffusion index moved further into negative range this month, declining to -12.9 from a revised reading of -0.4 in December.

Summary

Although shipments are reported near steady, manufacturing firms report a sharp decline in new orders and general activity this month. The decline of current indicators for employment, work hours, delivery times, and unfilled orders also point to a slackening of activity. The survey's price indicators continue to be well behaved. Although firms' expectations for future shipments and new orders improved this month, the same firms are less optimistic about expansion in employment over the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns
January 1996

	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?	34.2	47.3	17.6	-16.6	16.8	37.7	42.9	26.0
Company Business Indicators								
New Orders	34.2	49.1	14.1	-20.0	20.1	39.7	40.2	20.1
Shipments	25.1	42.0	29.3	4.2	18.6	37.3	39.5	21.0
Unfilled Orders	36.1	59.2	0.0	-36.1	17.6	57.2	21.3	3.7
Delivery Time	17.0	75.6	5.9	-11.1	18.8	67.3	6.8	-12.0
Inventories	25.2	49.0	25.8	0.6	32.7	59.4	6.5	-26.2
Prices Paid	10.9	66.7	22.3	11.4	9.9	45.1	42.3	32.4
Prices Received	19.7	69.8	8.0	-11.7	10.1	67.5	17.6	7.5
Number of Employees	20.0	68.3	9.4	-10.5	22.2	66.4	9.3	-12.9
Average Employee Workweek	27.6	54.9	13.8	-13.8	25.3	60.4	11.6	-13.7
Capital Expenditures	—	—	—	—	10.6	55.8	14.7	4.1

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.



Selected Revised Diffusion Indexes, Business Outlook Survey (1990-1995)

	January	February	March	April	May	June	July	August	September	October	November	December
Current General Activity												
Diffusion Index												
1990	-7.5	-22.4	-21.9	-9.1	-16.5	-8.8	-17	-18.1	-43.1	-48.1	-27.1	-37.9
1991	-32	-22.8	-11.7	-6.6	3.8	12.9	21.6	27.2	20.4	9.7	1.3	-19.8
1992	-2.5	-0.5	14.9	19.6	17.2	15.2	30.3	17.7	21.4	-4.7	18.1	22.5
1993	30.2	32.6	16.1	22.6	14.8	4.4	0.7	1.7	7.6	8.6	18.5	37.2
1994	25.8	19.7	20.2	14.9	21.3	27	24	22.2	18.6	25	23.7	17.3
1995	6.8	7.4	3.8	-13.7	-10.7	-17.4	-13.2	6.9	26.2	19.7	2.5	11.3
Current Employment												
Diffusion Index												
1990	-8.8	0.6	-16.2	-9.9	-14.5	-15.2	-16.2	-19.2	-22.5	-20.2	-26.3	-21.7
1991	-21.2	-21.5	-18.6	-24.5	-11.3	-9.1	-13.5	-8.1	1	-11.4	-9.2	-21.4
1992	-8.2	-20	-4.9	-6.2	-4.6	7.9	3.5	-0.2	0.4	-10	-8.2	-0.2
1993	-0.8	3	-5.1	-3.1	2.8	-8.7	-11.8	-13	-6.4	4.8	-5	3.5
1994	5.1	2.5	5.7	8.6	5.6	4	5.4	5.3	3.4	8.1	10.8	2.1
1995	0.2	7.3	2	-19.4	-14.1	-12.6	-18.6	-11.7	10.2	-0.6	-3.5	-11.5
Current Prices Paid												
Diffusion Index												
1990	21.3	22	26.9	29.2	26.7	5.9	26.5	16.2	41.9	42.3	39.1	39.1
1991	14.5	8.8	6.9	11.6	-0.1	4.1	5.1	9.1	8	14.1	7.6	9.9
1992	-2.3	4.8	13	8.8	16.8	13.1	10.1	14.1	7.7	3.5	0.3	4.9
1993	7	18.2	13.9	14.5	17.5	15.2	17.6	7.8	13	3.8	12	13.5
1994	22.8	25.8	15.2	33.6	27.6	31.7	36.8	43.3	45.7	53	55.7	45
1995	54.8	43.5	41.7	34.1	30.1	25.9	23.3	14.9	15.5	27.2	10.8	4.5
Current Prices Received												
Diffusion Index												
1990	1.9	3.7	4.3	6	5.3	-1	-7.5	2.1	1.3	5	6.7	-3.9
1991	-6.9	-8.7	-10.8	-17.1	-18.4	-11.4	-7.5	-8.1	-2.6	-2.5	-7.2	-1.1
1992	-18	-16.4	-5.3	-2.8	-0.2	2.3	-2.2	0.7	-2.2	-5.7	-7.8	-3.7
1993	2.9	0.6	1	5.8	1.2	-1.8	-0.2	-7.1	-5.3	-5.6	-0.1	2.5
1994	12.3	12.9	8.9	8.6	11.5	11.8	16.7	22.7	17.8	26.6	24.3	18.8
1995	19.7	12.2	14.8	5	6	-0.4	-4.4	-5.2	4.3	3.2	-3.7	-2.9
Future General Activity												
Diffusion Index												
1990	9.5	-0.1	13.2	13.5	13.6	18.9	5.1	1.6	-17.7	-11	6.5	12.1
1991	-11.4	26.8	40	40.6	51.5	59.6	63.3	66.5	71.5	71.3	64.2	66.2
1992	51.9	57.1	47	56.3	55.8	66.8	52.7	54.4	56.5	54.9	59.5	54.9
1993	54.7	64.2	47.5	40.8	27.9	32.5	38.4	38.9	36.2	40.8	32.5	50.8
1994	46.1	37.7	46.3	43.4	31.7	29	28.3	27.5	27.6	23	24.3	18.6
1995	17.9	11.2	-3.7	1.8	14	14	21.5	24.1	23.8	26.5	25.7	16.5

Source: Research Department, Federal Reserve Bank of Philadelphia
January 18, 1996