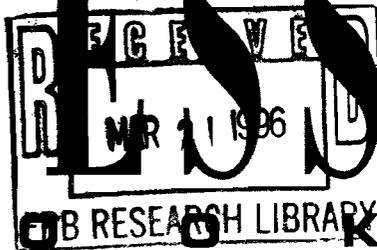


BUSINESS

O U T L O O K



Federal Reserve Bank
of Philadelphia

Survey

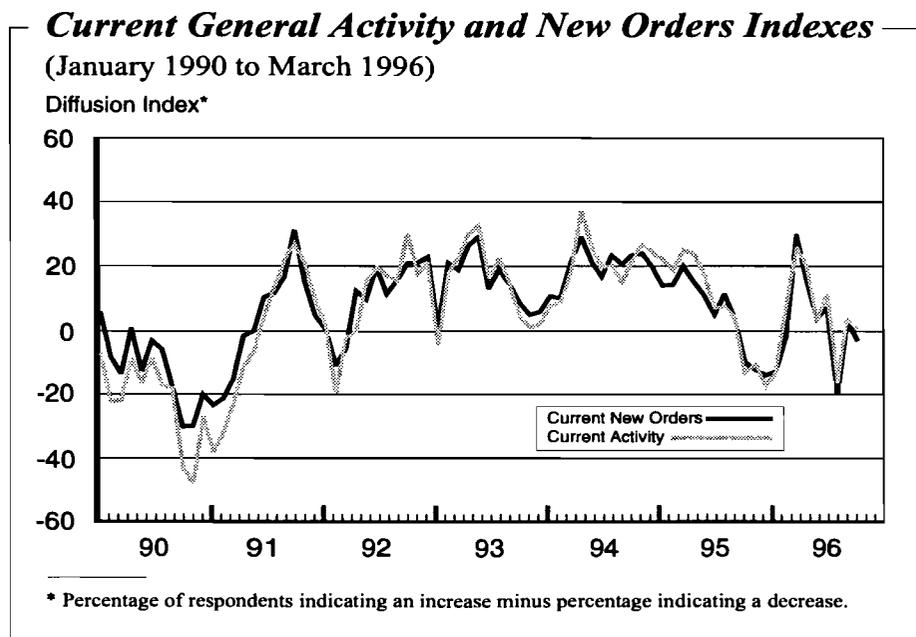
March 1996

This month's *Business Outlook Survey* provides little evidence of growth in the region's manufacturing sector. Manufacturers in the District report steady activity for their businesses this month, with no change in new orders or shipments. Manufacturing input prices remain steady this month, but prices for manufactured goods are weak again.

Current Indicators Suggest Flattening of Activity

Survey responses suggest steady activity for the region's manufacturers. The current general activity diffusion index decreased modestly from 3.8 in February to -0.1. About 61 percent of the manufacturing firms reported no change in activity from February, and the percentage reporting increased activity (19 percent) was virtually the same as the percentage reporting declines. The diffusion index for current new orders registered a similar "near-zero" reading (-3.5) and declined slightly from its positive reading (2.9) in February (see Chart). Although an increase in shipments was reported in February — partially attributable to a delay caused by January's weather — they are flat this month. The diffusion index for current shipments declined from a positive reading of 11.0 in February to -1.6.

Weak manufacturing activity is consistent with firms' responses regarding unfilled orders and delivery times. The current indexes remain negative, suggesting declining order



backlogs and shorter delivery times, although both indexes showed improvement over those for January and February.

Manufacturing employment is reported steady this month: the percentage of firms reporting increases (10 percent) does not quite match the percentage reporting declines (12 percent). March's -1.5 reading for the current employment diffusion index, however, represents an improvement over February's reading of -10.8. The average workweek index remained negative in March at -10.1, indicating an overall decline in average work hours this month.

Manufacturing Prices Remain Steady

Diffusion indexes for both current prices paid and current prices received were negative again this month but increased from their record low readings in February. The current prices paid index, reflecting firms' raw material and input prices, increased from its 28-year low of -6.5 in February to -1.0. For their own manufactured goods, 15 percent of the manufacturers indicate declines in prices this month; 6 percent report increases. Firms reporting price declines have outnumbered those

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reporting increases for five consecutive months.

Manufacturers Continue to Predict Pickup in Manufacturing Activity

Despite reported sluggishness in current activity, a majority of firms expect increases in overall manufacturing business over the next six months. The future general activity index declined from 32.7 in February to 24.8, which is near its average level for the past eight months. Firms expecting an increase in overall business over the next six months (45 percent) continue to outnumber those expecting declines (20 percent). Similar responses are obtained with regard to expected new orders and shipments over the next six months.

As in past surveys, manufacturers report that inventories will be reduced from their current levels over the next six months and slightly more firms expect increases in unfilled orders than expect declines. Also, a slightly larger percentage expect longer delivery times.

Although about 48 percent of firms expect increases in new orders over the next six months, only 17 percent of the firms are forecasting increases in employment. On balance, the manufacturers' responses suggest an overall forecast of steady employment and work hours over the next six months. The future employment diffusion index declined modestly from 4.4 in February to -0.7, and the future average workweek index, now at 1.0, is virtually unchanged.

Summary

Survey indicators for March suggest manufacturing activity in the region is nearly unchanged from that in the previous month. Although some indicators — current employment and prices — increased, their levels remain negative. Weakness in the indexes for current shipments and new orders suggests flat activity. Manufacturers forecast an improvement in business over the next six months, however; the percentage of firms expecting increasing activity outnumbers the percentage expecting decreasing activity by more than 2:1.

BUSINESS OUTLOOK SURVEY

Summary of Returns
March 1996

	March vs. February				Six Months from Now vs. March			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	19.3	61.2	19.2	-0.1	20.3	34.0	45.0	24.8
Company Business Indicators								
New Orders	29.5	43.5	26.0	-3.5	26.5	23.0	48.2	21.7
Shipments	24.4	50.3	22.9	-1.6	21.0	30.6	45.0	24.0
Unfilled Orders	30.0	48.7	17.5	-12.5	18.0	54.8	25.8	7.8
Delivery Time	13.7	75.3	10.0	-3.7	12.9	65.9	16.7	3.8
Inventories	31.1	51.0	18.0	-13.1	34.0	44.6	20.5	-13.5
Prices Paid	10.3	80.0	9.3	-1.0	5.4	60.0	32.3	26.9
Prices Received	14.5	76.5	5.6	-8.9	14.9	58.4	24.1	9.2
Number of Employees	11.5	74.9	10.0	-1.5	17.7	61.0	16.9	-0.7
Average Employee Workweek	23.3	62.9	13.2	-10.1	19.4	60.2	20.4	1.0
Capital Expenditures	—	—	—	—	18.1	47.2	19.9	1.8

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.