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BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

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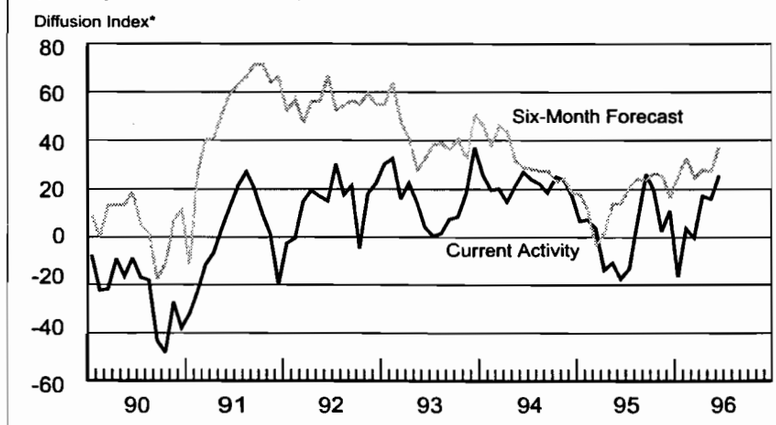
June 1996

Current indicators in this month's *Business Outlook Survey* suggest an acceleration of growth for the region's manufacturers. The survey's indicators for general activity and new orders increased this month and have been on an upward trend over the past several months. The results of this month's survey also show an improvement in manufacturers' expectations about growth over the next six months.

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



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

Growth in New Orders and Shipments Reported

Most of the survey's current manufacturing indicators showed improvement this month; these indicators have remained positive for three consecutive months. The current general activity diffusion index increased from 16.0 in May to 25.6 (see Chart). More than 33 percent of the manufacturers reported that the level of general business activity increased this month; only 8 percent reported a decline. Improved conditions are evident in firms' responses regarding new orders: more than 43 percent reported an increase in new orders; 12 percent reported a decline. The current new orders index increased from 24.8 to a relatively high reading of 31.7. The current shipments index was also strongly positive at 27.7, although slightly lower than the 29.2 recorded in May.

The rise in new orders and shipments is accompanied by a sharp increase in the current unfilled orders index, which went from -7.3 in May to 14.4, the first positive reading since September 1995. Although 64 percent of the firms reported no change in unfilled orders, 25 percent reported an increase and 11 percent reported a decline. Delivery times are also longer this month; moreover, the current delivery time index increased from -9.7 to 8.3. On balance, more firms reported declines in current inventories this month (35 percent) than reported an increase (23 percent), and the current inventories index, now at -12.4, has remained near its current level for the past four months.

Employment is reported unchanged at two-thirds of the surveyed firms, but for the second consecutive month, the percentage of firms reporting increases in employment (20 percent) was greater than the percentage reporting declines (15 percent). The current employment diffusion index remained virtually unchanged at 4.7. For the third consecutive month the average workweek index remained positive but increased only slightly, from 4.9 in May to 5.3.

Prices of Manufactured Goods Reported Steady

Despite improving demand, prices for manufactured goods showed little upward pressure, and 69 percent of the polled firms reported no change. Of the other remaining firms, 16 percent reported price declines and 15 percent, increases. Although the current prices received index increased slightly from -3.2 to -1.8, it has remained negative for

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the eighth consecutive month.

Although prices received for their own manufactured goods remained steady, some manufacturers continued to report price increases for inputs. Nearly 24 percent reported increases in the prices paid for raw materials and other inputs this month; only 8 percent reported declines. The current prices paid index increased from 10.2 in May to 15.5. Although the current prices paid index has drifted higher in recent months, it remains well below its average level in 1995.

Manufacturing Outlook Is Improving

Most future indicators also increased this month. On balance, firms remain optimistic about continued growth for their businesses over the next six months. The future general activity diffusion index increased sharply from 27.5 to 37.9, the highest reading in more than two years (see Chart). Nearly 51 percent of the manufacturers expect improvements in overall business during the next six months; 13 percent expect deterioration. The future indicator for new orders increased slightly from 32.4 to 33.5, and the future shipments index rose from 27.8 to 39.6. On balance, firms expect a continued rise in unfilled orders, but 22 percent expect delivery times to lengthen; 15 percent expect them to shorten.

The improvement in manufacturing conditions in recent months has given rise to a modest improvement in responses regarding future employment plans. Although more than 66 percent of the firms expect no change in employment levels over the next six months, the percentage of firms expecting to add workers (21 percent) exceeds the number planning reductions (13 percent). The future employment diffusion index has edged up slightly for three months and increased from 5.5 in May to 8.0 this month. Firms are relatively more optimistic regarding their capital expenditure plans: nearly 34 percent of the manufacturers plan increases in capital expenditures over the next six months.

Summary

Survey responses this month indicate a boost in demand for manufactured goods and continued improvement in manufacturing conditions. New orders, shipments, unfilled orders, and delivery times all increased this month. Although two-thirds of firms reported no change in manufacturing employment, a slightly larger percentage reported increasing levels of employment than reported declining levels. The improvement in current conditions was paralleled by a rise in most of the survey's future indicators, including a modest improvement in employment plans for the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns
June 1996

	June vs. May				Six Months from Now vs. June			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	7.7	54.7	33.3	25.6	12.6	34.4	50.5	37.9
Company Business Indicators								
New Orders	11.8	41.6	43.4	31.7	19.8	25.5	53.3	33.5
Shipments	14.3	41.5	42.0	27.7	18.9	22.5	58.5	39.6
Unfilled Orders	10.6	63.9	25.0	14.4	17.6	50.0	28.2	10.6
Delivery Time	8.4	74.9	16.7	8.3	21.6	60.8	15.3	-6.3
Inventories	34.9	42.6	22.5	-12.4	34.1	31.5	29.7	-4.3
Prices Paid	8.1	67.5	23.6	15.5	11.2	46.0	39.7	28.4
Prices Received	16.3	69.0	14.5	-1.8	6.8	63.1	27.6	20.8
Number of Employees	14.8	65.6	19.6	4.7	12.9	66.3	20.8	8.0
Average Employee Workweek	13.9	65.9	19.2	5.3	17.7	55.0	24.7	7.0
Capital Expenditures	—	—	—	—	14.6	35.2	33.5	18.9

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.

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