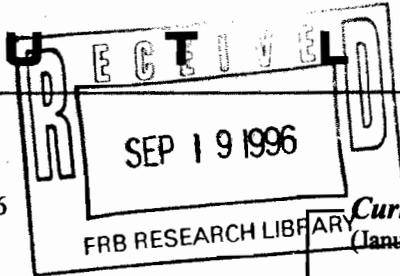


BUSINESS

Federal Reserve Bank
of Philadelphia

BOOK Survey

September 1996



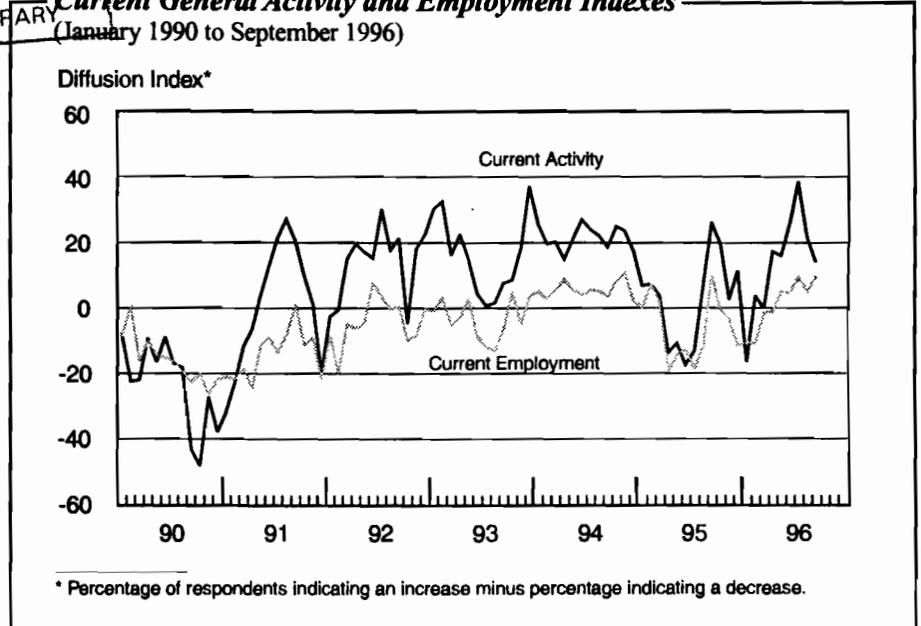
Current General Activity and Employment Indexes (January 1990 to September 1996)

After a sharp increase earlier in the summer, the pace of growth in the region's manufacturing sector has moderated considerably. Expectations about future growth have moderated as well. Nonetheless, prices for both inputs and manufactured goods showed some upward pressure.

Current Indicators for August and September Suggest Moderate Manufacturing Expansion

The current general activity diffusion index declined from 21.5 in August to 13.9 this month. Although it remains positive, the index has declined over the last two months, following relatively high readings earlier this summer (see Chart). Nearly 34 percent of surveyed manufacturers reported increases in activity from the previous month while nearly 20 percent reported declines. The new orders index, although still positive, also declined for the second consecutive month, from 22.7 to 16.8. The current shipments index remained strong at 24.1, essentially unchanged from the previous month.

Manufacturers reported nearly steady unfilled orders: the percentage of firms reporting an increase (20 percent) was essentially offset by the percentage reporting a decrease (18 percent). Sixty-three percent of the firms reported unchanged delivery times, 15 percent reported longer delivery times, and 18 percent reported shorter delivery times. The current inventories index remained



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

negative, suggesting further declines in inventories, although the index increased from -25.6 in August to -11.5.

For the fifth consecutive month, the share of firms reporting increases in employment (22 percent) was greater than the share reporting declines (12 percent), although 63 percent of firms reported no change from the previous month. The current employment index also showed modest improvement increasing from 5.1 to 9.5 (see Chart). The average workweek index, however, declined from 6.3 to -1.7.

Survey Price Indexes Show Rise

The region's manufacturers reported higher prices for purchased inputs and raw materials this month. Almost 24 percent of firms reported an increase in

input prices, compared with 14 percent in August. The diffusion index for current prices paid rose from 4.6 to 18.0, the highest reading since last October.

Nearly 79 percent of manufacturers reported no change in final prices for manufactured goods this month, but for the first time in 11 months, the percentage of firms reporting price increases (12 percent) was greater than the percentage reporting declines (8 percent). The current prices received index increased from -3.0 to 4.6.

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Growth Forecasts Remain Tempered

Although expectations regarding future growth for the manufacturing sector remain positive, most forecast measures have been in decline over the past few months. The diffusion index for future general activity declined modestly from 18.7 in August to 17.6 this month. The index has now fallen in three consecutive months, consistent with expectations for slower growth over the next six months. More than 41 percent of the manufacturers polled expect increases in general activity during the next six months; 24 percent expect declines. Similar percentages were reported regarding expectations for both new orders and shipments over the next six months.

This month manufacturers expect weakening activity to reduce unfilled orders and shorten delivery times — the respective future diffusion indexes for both categories remained negative. Inventories are expected to fall below current levels.

More than 57 percent of the manufacturers forecast no change over the next six months in current levels of employment. Firms that anticipate increasing payrolls (24 percent) slightly outnumbered the percent that expect decreasing payrolls (19 percent). Firms are somewhat more optimistic about capital expenditures: 26 percent expected increases over the next six months; 15 percent expected decreases.

Summary

Most current indicators fell for the second consecutive month, although overall growth in the manufacturing sector is apparently continuing. Although nearly 63 percent reported no overall change in employment, the share of firms reporting increases was only slightly higher than the share reporting declines. Nearly 24 percent of firms reported price increases for raw materials and other inputs this month, although only 12 percent reported price increases for their own final goods. Firms generally expect manufacturing growth to continue over the next six months, although expectations are generally less optimistic than they were earlier this year.

BUSINESS OUTLOOK SURVEY

Summary of Returns September 1996

	September vs. August				Six Months from Now vs. September			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	19.7	46.7	33.6	13.9	23.5	33.0	41.1	17.6
Company Business Indicators								
New Orders	22.0	37.8	38.8	16.8	24.2	27.3	46.8	22.6
Shipments	18.9	38.1	43.0	24.1	26.9	29.3	41.8	14.9
Unfilled Orders	18.0	61.9	20.1	2.0	28.4	47.5	21.7	-6.7
Delivery Time	17.6	63.0	15.3	-2.2	30.1	56.3	6.4	-23.7
Inventories	31.3	48.0	19.8	-11.5	34.1	42.5	23.4	-10.7
Prices Paid	5.7	70.2	23.7	18.0	3.9	55.5	38.4	34.4
Prices Received	7.8	78.8	12.4	4.6	11.7	61.0	27.0	15.3
Number of Employees	12.1	62.6	21.6	9.5	18.7	57.4	23.9	5.2
Average Employee Workweek	16.2	68.9	14.5	-1.7	24.9	54.4	17.2	-7.7
Capital Expenditures	—	—	—	—	14.6	38.8	25.6	11.0

- 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.