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BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

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October 1996

Survey responses from the region's manufacturers suggest a slower pace of growth. Most indicators of industrial activity, though positive, edged lower this month, suggesting a trend toward slower growth. Looking forward, survey respondents expect the manufacturing sector to grow, but they were less optimistic about the pace of growth than they were in previous months.

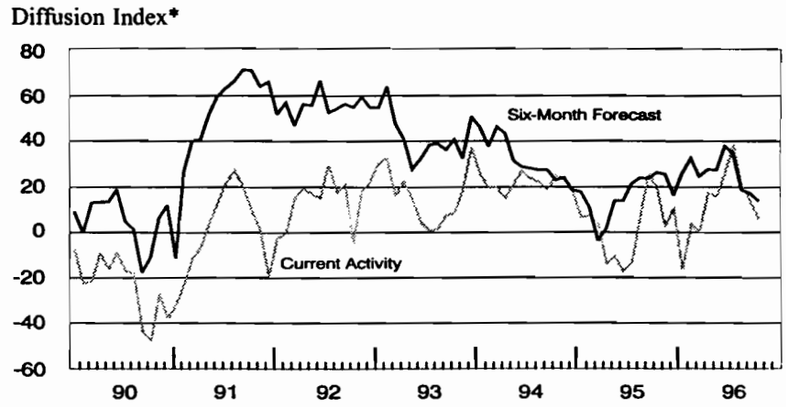
Most Indicators Suggest Slow Growth

While most of the survey's broad activity indexes remained positive this month, they fell from the previous month's levels. The general business activity index declined from 13.9 in September to 5.3— the third consecutive monthly decrease (see Chart). Half of the manufacturers report no change in activity from the previous month, and the percent reporting increases (27 percent) was slightly greater than the percent reporting declines (22 percent). Both the new orders and shipments indexes declined this month and, like the general activity index, are now at their lowest readings since March. The current new orders index fell to 9.9 from 16.8, and the current shipments index fell to 11.9 from 24.1.

Increasing slack in the manufacturing sector is also evident this month in reports on unfilled orders, delivery times, and inventories. For the first time in six months, the percentage of firms reporting a decline in unfilled orders (28 percent) was greater than the percent reporting an increase (19 percent), and the current unfilled orders index dropped to -9.8 from 2.0. Shorter delivery times were also reported this month: the current delivery times diffusion index fell to -13.7 from -2.2. Although still negative, the current inventories index increased to -2.7, the highest reading since January, from -11.5 in September.

Responses regarding current employment conditions also weakened in the October survey. After remaining positive for five consecutive months, the current employment index fell to -4.7 from 9.5. Although 70 percent of firms report no change in employment this month, the percent reporting decreases in employment (17 percent) was greater than the percent reporting increases (13 percent). The average workweek index also fell, to -5.9 from -1.7.

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



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

One-quarter of Firms Report Higher Input Prices

Although current diffusion indexes for both prices paid and prices received increased only slightly this month, they remain higher than levels of the past year. With regard to the prices paid for raw materials and other inputs, 25 percent of the firms report higher prices this month; only 3 percent report lower prices. Nevertheless, nearly 69 percent of the firms report no change in their input prices compared with the prior month. The diffusion index for current

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prices paid increased moderately, to 21.9 this month from 18 in September.

With regard to prices received for final manufactured goods, 15 percent of firms report price increases this month, but 10 percent report price reductions. The current prices received index has now been positive for two consecutive months but was only marginally higher this month than last, increasing to 5.4 from 4.6.

Manufacturers' Forecasts Consistent With Modest Growth

When asked to forecast manufacturing activity for the next six months, the manufacturers provide a somewhat divided picture. Although nearly 40 percent expect growth in their businesses over the next six months, nearly 26 percent expect declines. Similar responses were provided for future changes in new orders and shipments. The survey's overall future general activity index declined to 14.2 from 17.6, consistent with the decline in the current general activity index during the past few months (see Chart).

On balance, firms expect unfilled orders to remain steady and delivery times to shorten over the next six months. Similarly, firms expect inventories to decline from current levels. In keeping with an assessment of overall slower growth, firms forecast little growth in employment. Nearly 23 percent of those polled expect employment increases in the next six months, but an even higher percentage (25 percent) expect employment reductions. For the second time in three months the current employment index is negative, declining to -2.5 in October from 5.2 in September.

Summary

Slower growth in the region's manufacturing sector is confirmed by this month's *Business Outlook Survey*. Current indicators for general activity and new orders fell for the third consecutive month, and weakness is corroborated by responses indicating lower unfilled orders, shorter delivery times, and reductions in employment and work hours. Current indexes for both prices paid and prices received increased only slightly this month, but remain higher than levels of the past year. Slower growth is most likely behind the moderate expectations for general business activity and employment gains in the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns
October 1996

	October vs. September				Six Months from Now vs. October			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	22.0	49.6	27.3	5.3	25.5	33.5	39.7	14.2
Company Business Indicators								
New Orders	24.4	41.3	34.3	9.9	24.1	37.7	37.9	13.8
Shipments	19.9	45.1	31.9	11.9	22.6	35.2	41.1	18.5
Unfilled Orders	28.3	51.6	18.5	-9.8	21.5	56.3	22.1	0.6
Delivery Time	19.6	73.1	5.9	-13.7	17.9	70.8	9.2	-8.7
Inventories	24.7	53.2	22.0	-2.7	37.5	48.4	12.9	-24.6
Prices Paid	2.8	68.7	24.7	21.9	7.9	64.1	28.1	20.2
Prices Received	9.5	75.7	14.9	5.4	9.4	74.7	15.9	6.5
Number of Employees	17.4	70.0	12.7	-4.7	25.4	51.7	22.9	-2.5
Average Employee Workweek	18.7	68.3	12.8	-5.9	20.1	63.3	14.7	-5.4
Capital Expenditures	—	—	—	—	14.2	46.7	29.7	15.5

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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