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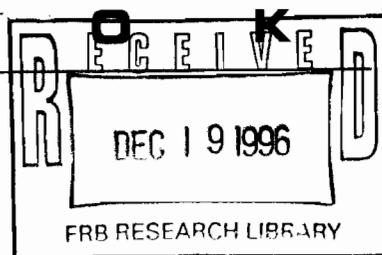
C. Alaridge

Federal Reserve Bank
of Philadelphia

BUSINESS

OUTLOOK Survey

December 1996



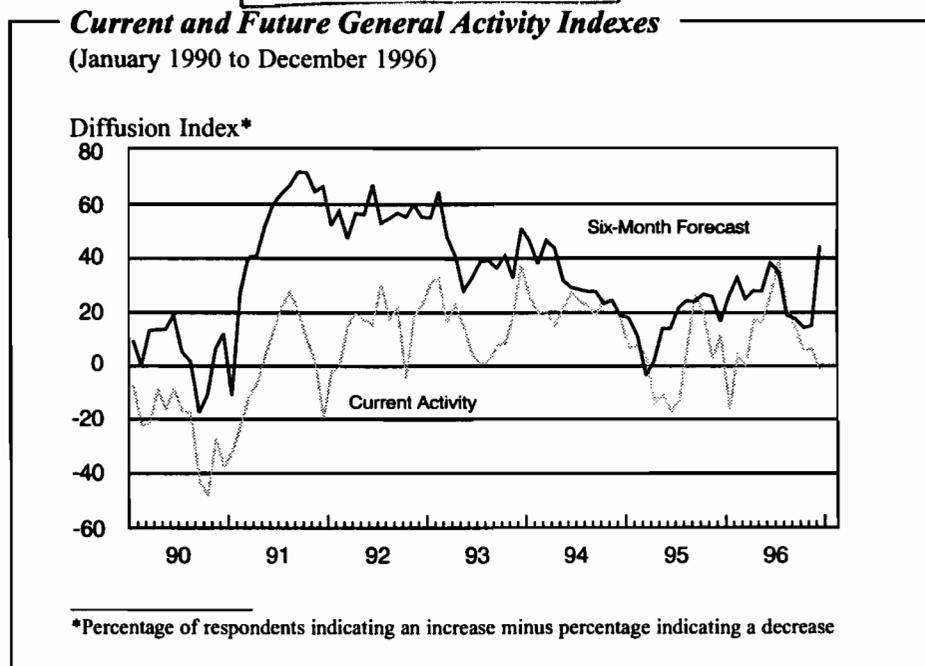
Measures of current economic conditions suggest no growth in the region's manufacturing sector this month. On balance, this month's *Business Outlook Survey* indicates that both new orders and shipments are nearly unchanged from the levels of the previous month. Despite this recent trend toward slow growth, respondents registered notable improvements in the outlook for their businesses over the next six months.

Manufacturing Activity Holds Steady

The current general activity index fell from 6.4 to -2.2, the first negative reading since March (see Chart). Although the index has been falling over most of the previous four months, this month's reading suggests that overall manufacturing conditions are steady. Nearly 49 percent of the manufacturers report no change in overall business compared with November. The percentage indicating decreases in business activity (27 percent) was slightly higher than the percentage indicating increases.

Other indicators this month also point to the flattening of growth. The current new orders index has been in decline for five consecutive months; it fell again in December from 5.8 to 1.9. The current shipments index also edged nearer zero, declining from 11.8 to 4.9. Indicative of continued weakness, the indexes for unfilled orders and delivery times have now recorded parallel negative readings for three consecutive months.

Responses about current employment conditions are consistent with the



picture of no current growth. Nearly 72 percent of the firms report no change in employment compared with November. Moreover, slightly more firms reported declining employment (15 percent) than reported increasing employment (13 percent). The current employment index fell from 1.0 to -1.6, the second negative reading in three months. The average workweek index remained negative, but increased from -8.7 to -1.6.

Price Pressures Are Little Changed

When asked how prices paid for purchased inputs compared with those of the previous month, 72 percent indicated that they had not changed, while 21

percent reported higher and 7 percent reported lower prices. The current prices paid index edged down from 14.6 to 13.9. It has now declined in two consecutive months, although it remains above its average for the year.

Increases in prices for final manufactured goods are reported by 12 percent of the firms this month, while 6 percent report lower prices. The current prices received index increased from 1.6 in November to 6.2 in December and has

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now remained positive for four consecutive months. Before that, the index had been negative for 10 consecutive months.

Expectations Brighten

In spite of current weakness, or perhaps because of it, most indicators of future growth increased considerably this month. The future general activity index increased sharply from 14.9 to 44.1, its highest level since March 1994 (see Chart). Nearly 58 percent of the respondents expect increases in business activity over the next six months (in last month's survey, only 36 percent expected increases).

Other future indicators showed a similar rise this month. For example, the

future new orders index rose from 28.6 to 44, although the future shipments index rose less dramatically from 29.9 to 35.2.

With regard to their employment plans, nearly 34 percent of the firms indicate they plan to hire additional workers over the next six months; only 14 percent expect fewer workers will be needed. Moreover, the future employment index increased from 17.6 to 19.5. The polled firms also expect to boost the average workweek for their workers; the future workweek index increased from 7.2 to 14.4.

Summary

This month's survey suggests no growth for the region's manufacturing

sector, capping four months of weakening current indicators. New orders growth weakened again this month, with only a slightly higher percentage of firms reporting increases in new orders and shipments. The manufacturing firms polled, however, apparently do not expect a further weakening or a protracted slump to develop. Indeed, most future indicators, which reflect the firms' expectations over the next six months, increased sharply this month. Firms' expectations about increases in employment have also improved over the past two months, despite the reported current weakness in manufacturing activity.

BUSINESS OUTLOOK SURVEY

Summary of Returns December 1996

	December vs. November				Six Months from Now vs. December			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	26.8	48.6	24.6	-2.2	13.4	27.6	57.5	44.1
Company Business Indicators								
New Orders	27.7	42.8	29.5	1.9	13.8	25.6	57.8	44.0
Shipments	24.3	46.5	29.2	4.9	17.6	23.5	52.8	35.2
Unfilled Orders	25.8	54.9	16.8	-9.0	19.8	49.6	25.4	5.6
Delivery Time	19.8	67.7	10.5	-9.4	21.7	54.0	20.4	-1.3
Inventories	24.0	52.2	23.1	-0.9	28.7	44.4	24.1	-4.6
Prices Paid	7.0	72.1	20.9	13.9	6.5	56.0	33.5	26.9
Prices Received	5.6	80.8	11.8	6.2	9.1	66.7	20.9	11.8
Number of Employees	15.0	71.5	13.4	-1.6	14.1	51.3	33.7	19.5
Average Employee Workweek	17.7	65.2	16.1	-1.6	14.5	52.6	29.0	14.4
Capital Expenditures	—	—	—	—	14.2	41.9	31.9	17.8

- 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.