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BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

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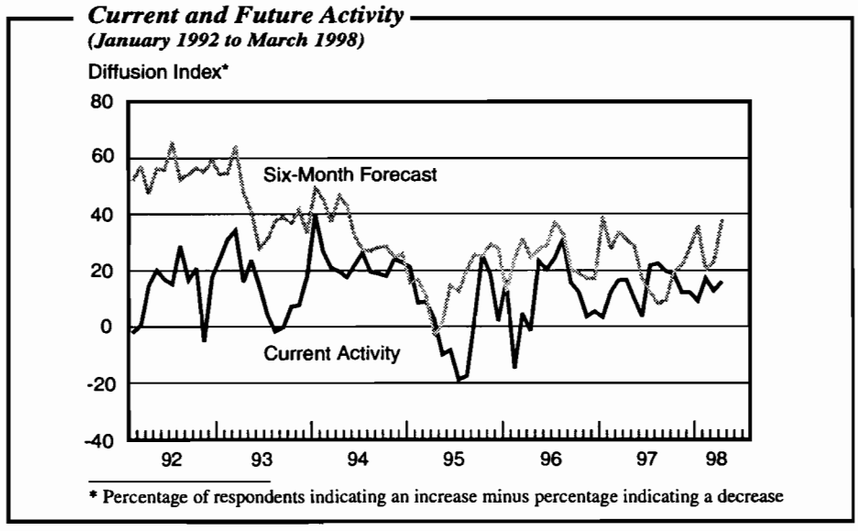
March 1998

Manufacturers polled for this month's *Business Outlook Survey* indicate that their businesses continue to grow. Most survey indicators held close to their levels of the previous month, suggesting continued steady growth for the region's manufacturing sector. Indicators of expectations for the next six months showed notable improvement this month.



Shipments and New Orders Continue To Advance

Although the largest percentage of respondents (44 percent) reported no change in overall business activity this month, 36 percent reported increases and only 20 percent reported decreases. The current activity index rose slightly, from 12.8 to 16.1. The index has remained very close to its current level for most of the past nine months (see Chart).

Growth in new orders is continuing: over 36 percent of the manufacturers reported increases this month; 17 percent reported decreases. The current new orders index declined from 24.2 to 18.8, but the average level of the index over the past two months has been higher than the average reading over the previous six months. About 32 percent of the firms reported growth in shipments this month; 18 percent reported declines. The current shipments index fell slightly, from 17.5 to 14.2.

Little change in the indicators for delivery times and unfilled orders suggests manufacturers are maintaining shipments in line with demand. Nearly the same percentage of firms reported increases in unfilled orders (25 percent) as reported decreases (23 percent), and the current unfilled orders index was essentially unchanged at 2.3. Delivery times were reported shorter by 19 percent of the firms, but 14 percent reported longer delivery times. The current delivery time index increased from -9.4 to -5.0.

On the employment front, the past two surveys have suggested some increases in the demand for manufacturing workers. About 22 percent of the firms reported hiring additional workers this month; 8 percent reported reductions. The current employment index declined from 15.1 to 14.3, but the previous month's reading was the highest in about 10 years. Average work hours are reported near steady. A considerable percentage of firms reported difficulties in hiring qualified general manufacturing labor in addition to technical workers such as machinists, machine operators, and those with computer skills.

Prices Show Little Upward Pressure

Prices of final manufactured goods are higher at 8 percent of the surveyed firms, lower at 9 percent, and steady at the remaining 84 percent. The current prices received index increased only slightly from -2.3 to -1.2, suggesting steady prices for manufactured goods.

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Pressures on input prices appear to be minimal, although the current prices paid index increased moderately from 8.4 to 12.0. The prices paid index, however, remains lower than its readings for most of the past year.

Manufacturers' Forecasts Improve

Survey responses reflect improved optimism about manufacturing growth over the next six months. Nearly 50 percent of the polled firms expect increases in overall business during the next six months; 12 percent expect declines. The future activity index increased from 23.0 in February to 38.1, its highest reading since the end of 1996 (see Chart). Similar optimism prevails with regard to future new orders and shipments. Nearly 51 percent expect growth in new orders over the next six months, and more than 59 percent expect growth in shipments.

Optimism is also evident in responses regarding future employment plans. Although 52 percent of firms expect to maintain current employment levels, the percentage expecting an increase in employment (32 percent) exceeds the percentage expecting a decrease (14 percent). The future employment diffusion index, at 18.2, is essentially unchanged from the previous month. Firms also expect an increase in the average workweek. The future workweek index remained positive and increased from 13.5 to 14.9.

Summary

Most current indicators suggest a continued steady rate of growth in the region's manufacturing sector, although a pickup in new orders and employment growth have been reflected in survey responses of the past two months. Responses regarding the prices paid for raw materials and other inputs and the prices received for manufactured goods suggest little upward pressure on either front. Growth of new orders and shipments has given rise to an improvement in the manufacturers' overall forecast of activity for the next six months. One-half of the respondents expect growth in their businesses over the next six months, and one-third expect to hire additional workers.

BUSINESS OUTLOOK SURVEY

Summary of Returns
March 1998

	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?	19.8	44.0	35.9	16.1	11.6	38.1	49.8	38.1
Company Business Indicators								
New Orders	17.3	44.2	36.1	18.8	12.8	33.9	50.5	37.6
Shipments	17.7	44.9	31.8	14.2	9.9	29.6	58.5	48.6
Unfilled Orders	23.1	49.0	25.4	2.3	19.1	55.9	25.0	6.0
Delivery Time	18.9	66.3	13.9	-5.0	13.8	64.6	17.9	4.2
Inventories	19.7	58.1	22.2	2.5	31.9	47.6	20.2	-11.6
Prices Paid	3.1	81.8	15.1	12.0	9.4	57.0	32.5	23.0
Prices Received	8.6	83.9	7.5	-1.2	13.3	61.3	23.7	10.4
Number of Employees	7.7	66.9	22.0	14.3	14.2	52.1	32.4	18.2
Average Employee Workweek	14.7	66.9	18.3	3.6	10.0	64.3	24.8	14.9
Capital Expenditures	—	—	—	—	11.8	39.4	34.6	22.8

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.