

BUSINESS

Federal Reserve Bank
of Philadelphia

O U T L O O K Survey

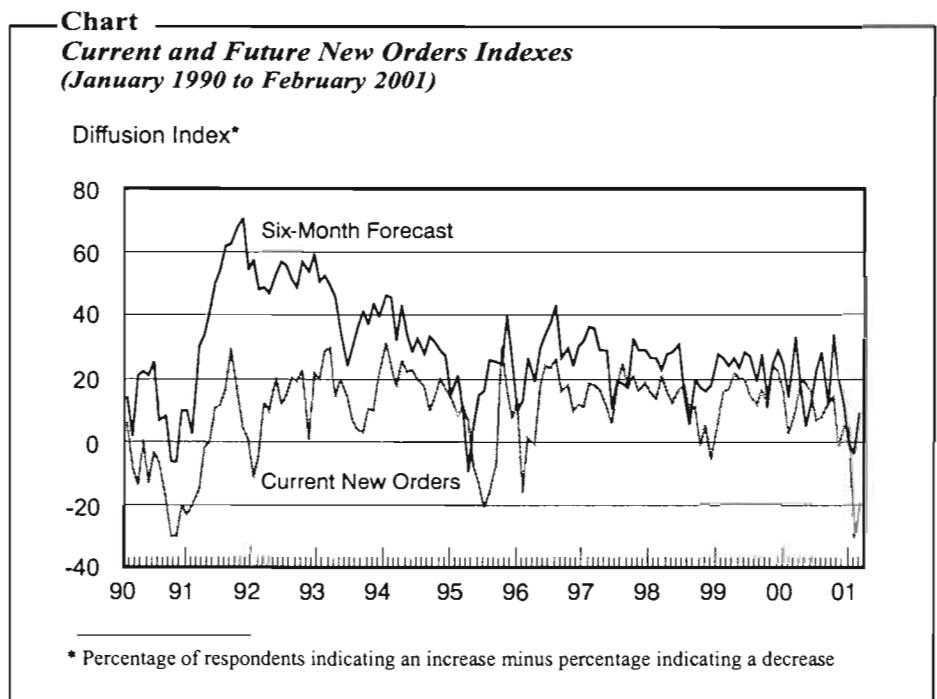
February 2001

The region's manufacturing sector is experiencing continued declines, according to the firms surveyed for this month's *Business Outlook Survey*. Measures of current conditions indicate another month of declines in new orders and shipments. Firms also report declines in employment and the average workweek this month. Indicators reflecting the firms' forecasts over the next six months showed notable improvement.

Current Indicators Improve Only Slightly

The diffusion index for current activity increased from -36.8 in January to -30.5 in February. The increase, however, follows January's near 33-point drop in the index and strongly suggests overall declines in the manufacturing sector. The percentage of firms reporting declines in business activity (41 percent) exceeds the percentage reporting increases (11 percent); 48 percent reported no change in activity this month.

Indicators for current new orders and shipments also reflect a sector experiencing relatively widespread declines. Forty-one percent of the manufacturers reported declines in shipments; only 12 percent reported increases. The current shipments index was up only slightly, increasing from -30.8 to -29.0. Nearly twice as many firms reported declines in new orders this month (41 percent) as reported increases (22 percent). The current new orders index recovered some of its loss from the previous month and increased from -30.9 to -19.6 (see Chart). Continued negative readings for unfilled



orders and delivery times indicate further weakness in the sector.

In recent months employment indicators have mirrored the pattern of current indicators. This month, however, the diffusion index of current employment increased from -23.5 in January to -7.9. The percentage of firms reporting declines in employment (22 percent) continues to exceed the percentage reporting increases (14 percent). Continued weakness is evident in responses regarding the current average workweek. The current workweek index remains at a very low reading, although it increased slightly from -27.3 in January to -25.7 this month.

Price Indicators Change Little

Upward pressures on input prices continue but are little changed from the previous survey. The current diffusion index for prices paid increased slightly from 12.9 to 13.1 this month. The index has been trending down over the past year, suggesting moderating pressures on input prices. This month 22 percent of the manufacturers surveyed reported increases in prices for purchased inputs, and 9 percent reported decreases.

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Prices of the manufacturers' produced goods also showed little difference from the previous survey. The current prices received index increased from -5.5 in January to -2.9 in February. The percentage of firms reporting price declines (18 percent) exceeded the percentage reporting increases (15 percent) for the fourth consecutive month.

Expectations Improved

Firms' expectations about economic conditions over the next six months improved from last month. The index of future general activity increased from -16.3 in January to 4.8 in February. The percentage of firms expecting growth over the next six months (32 percent) narrowly exceeds the percentage of firms expecting declines (27 percent). Firms'

responses regarding new orders and shipments reflect a similar improvement in outlook. The future new orders index increased from -4.0 in January to 9.4 in February (see Chart), and the future shipments index increased from -6.1 to 6.1.

Some improvement in the manufacturers' forecast is also seen in responses regarding employment plans. The diffusion index of future employment increased from -20.9 in January to -6.3 this month. More than 21 percent of the firms surveyed expect an increase in employment over the next six months; in contrast only 6 percent expected increases in the January survey. However, the percentage of firms expecting a decrease in employment is slightly higher, at 28 percent.

Summary

Although most current indicators improved from their January readings, the improvement was slight and overall manufacturing continues to weaken in the region. Declines were reported in shipments, and demand for manufactured products, as measured by new orders, continues to fall. Employment declines were not as severe this month as in the previous survey, but the average workweek indicators suggest a continued shortening of hours.

Firms' responses regarding the future, including their employment plans, suggest that there may be buoyancy in the sector and the recent reported declines in manufacturing will not worsen or continue over the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns February 2001

	February vs. January				Six Months from Now vs. February			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	41.3	47.8	10.8	-30.5	27.3	36.9	32.1	4.8
Company Business Indicators								
New Orders	41.4	36.5	21.7	-19.6	30.1	30.4	39.5	9.4
Shipments	41.1	46.0	12.1	-29.0	29.0	33.1	35.1	6.1
Unfilled Orders	30.8	53.2	15.9	-14.9	27.1	51.9	19.7	-7.4
Delivery Times	13.2	83.9	2.9	-10.3	14.6	76.8	6.4	-8.2
Inventories	25.5	55.3	19.2	-6.3	32.7	43.4	22.1	-10.5
Prices Paid	8.7	69.6	21.7	13.1	8.4	62.7	28.2	19.7
Prices Received	17.9	66.0	15.0	-2.9	13.4	54.7	27.4	14.0
Number of Employees	21.7	63.3	13.8	-7.9	27.5	51.3	21.2	-6.3
Average Employee Workweek	35.3	52.1	9.6	-25.7	22.3	59.5	17.8	-4.5
Capital Expenditures	—	—	—	—	16.2	60.6	9.1	-7.1

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.

(4) Survey results reflect data received through February 10, 2001.