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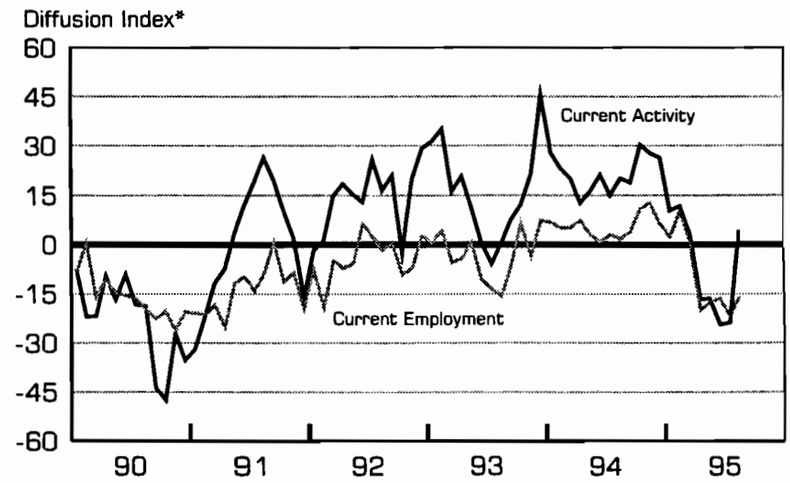
BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

August 1995

Responses to this month's *Business Outlook Survey* suggest that the region's manufacturing sector may be recovering from the declines of recent months. Most current economic indicators show marked improvement this month, and for the first time since March, the percentage of firms reporting increases in activity outnumber those reporting declines. Measures of manufacturing prices continue to indicate that price pressures have moderated since earlier in the year. Most future indicators also edged up this month, as manufacturers, on balance, expect a return to growth in the second half of the year.

Current Activity and Employment Indexes
(January 1990 to August 1995)



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

Current Indicators Strengthen

Current survey indicators suggest that the region's manufacturing sector may have begun recovering from the slump experienced over the past several months. The survey's current general activity diffusion index increased from -23.7 to 4.4 this month, ending four consecutive months of negative measurements (see Chart). Although about 51 percent of the manufacturers reported no change in activity from the previous month, 27 percent reported increases and 22 percent, declines. In contrast, for the July survey, 39 percent reported declines in activity from the previous month, and only 16 percent reported increases.

Other current diffusion indexes showed improvement this month. Although the current new orders index remains negative, it improved from -16.9 in July to -5.4. The current shipments index is up from a reading of -12.2 in July to 8.6 this month. Although more firms reported declines in unfilled orders (29 percent) than reported increases (16 percent), the unfilled orders index jumped sharply from -40.4 to -13.4. The delivery time index increased from -27.6 in July to -15.1.

The manufacturers polled reported fewer employees this month, but nearly steady hours for those employed. The current employment diffusion index improved from -21.7 in July to -15.9 (see Chart), with the percentage of firms reporting declines in employment (22 percent) outnumbering those reporting increases (6 percent). The current employment index has remained near its present level over the past five months (see Chart). For average work hours for those currently employed, 17 percent of manufacturers reported shorter hours and 17 percent reported longer . The current average workweek index, however, paralleled the improvement in other current indicators, increasing from -25.3 to -0.6 this month.

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Price Indexes Show Moderation

Price increases for purchased inputs continue to moderate, according to the survey's current prices paid index. The index, which has fallen for seven consecutive months, fell from 22.0 to 15.1. Although 30 percent of those polled report price increases for their raw materials and other purchased inputs, 15 percent report price reductions.

The prices of the manufacturers' own final products remain, on balance, steady. For the third consecutive month, the percentage of firms reporting price reductions (18 percent) edged out the percentage reporting increases (12 percent). The current prices received diffusion index, now at -5.4, is virtually unchanged from its level of the past three months.

Manufacturing Forecasts Indicate Improvement Ahead

The polled manufacturers expect increases in overall business over the next six months. Nearly 46 percent expect increases in general activity; 21 percent expect declines. The survey's overall diffusion index of future general activity increased for the second consecutive month, from 20.9 in July to 24.7. This is the highest reading since November. While manufacturers anticipate an increase in new orders and shipments, unfilled orders and delivery times are expected to remain near current levels. A relatively larger percentage of firms expect decreases in inventories (40 percent) than increases (28 percent).

Nearly 52 percent foresee no change in hiring during the next six months. But for the first time in six months, the percentage of firms expecting increases in employment over the next six months (25 percent) is greater than the percentage expecting reductions (22 percent). About 35 percent of the firms expect, however, to increase capital expenditures, and 17 percent expect a decline.

Summary

This month's survey responses indicate some improvement after four months of reported declines in manufacturing activity. Although some of the survey's current diffusion indexes remain negative, most showed marked increases. Most future indicators also improved this month, reflecting an expectation of growth for the manufacturing sector over the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns
August 1995

	August vs. July				Six Months from Now vs. August			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	22.1	51.4	26.5	4.4	21.1	33.2	45.7	24.7
Company Business Indicators								
New Orders	24.2	56.9	18.8	-5.4	24.3	28.6	45.5	21.3
Shipments	14.0	58.9	22.6	8.6	23.8	29.3	45.4	21.7
Unfilled Orders	29.3	54.8	15.9	-13.4	23.5	48.9	25.8	2.3
Delivery Time	20.6	71.8	5.5	-15.1	14.3	70.9	12.8	-1.5
Inventories	35.2	54.6	10.1	-25.1	40.1	32.4	27.5	-12.5
Prices Paid	15.0	55.0	30.1	15.1	6.6	47.5	43.0	36.4
Prices Received	17.7	70.1	12.3	-5.4	7.0	61.9	31.0	24.0
Number of Employees	21.5	69.9	5.6	-15.9	22.3	51.6	24.9	2.5
Average Employee Workweek	17.2	66.2	16.6	-0.6	17.1	61.9	21.0	3.9
Capital Expenditures	—	—	—	—	16.9	37.2	34.9	18.0

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.

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