

# BUSINESS

Federal Reserve Bank  
of Philadelphia

## O U T L O O K Survey

April 1996

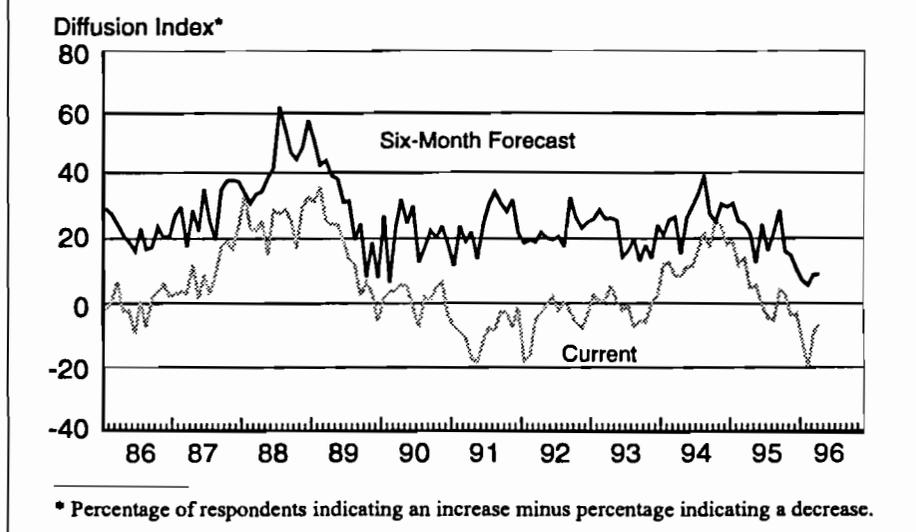
For the first time in several months, responses to this month's *Business Outlook Survey* indicate growth in regional manufacturing. The firms surveyed report increases in both new orders and shipments this month, although employment is unchanged. Also, more firms indicate increases in input prices, but final prices of manufactured goods are near steady. Most future indicators reflect optimism that manufacturing growth will continue over the next six months.

### Manufacturers Report Rise in Activity

The current general activity diffusion index increased from -0.1 to 17.3, the highest reading in more than six months. Although 47 percent of the polled manufacturers reported no change in activity from the previous month, over 35 percent reported increases and only 18 percent reported decreases. Last month, only 19 percent of firms reported increases. Consistent with the increased activity, the current new orders index increased from -3.5 to 13.7. Nearly 36 percent of the firms indicated an increase in new orders, although 22 percent indicated a decrease. Improved conditions are also apparent in the current shipments index, which increased from -1.6 in March to 27.6.

Survey responses suggest that the rise in shipments may be partially attributable to inventory reductions rather than increases in production. Nearly 37 percent of the firms report declines in inventories this month, compared with 21 percent reporting increases. Negative readings for the indexes for both unfilled

### Prices Received for Manufactured Goods (January 1986 to April 1996)



orders and delivery time this month suggest overall declines in backlogged orders and faster deliveries of manufactured goods, compared with the previous month.

On balance, employment is reported steady this month: the percentage of firms reporting increases in employment (15 percent) was only slightly smaller than the percentage reporting declines (16 percent). The current employment diffusion index, now at -1.1, remained virtually unchanged from -1.5 in March. For the first time in more than a year, however, the current average workweek index moved above zero, increasing from -10.1 to 4.4.

### More Firms Report Higher Input Prices

After two consecutive months of negative readings, the diffusion index for current prices paid increased only slightly, from -1.0 to 13.7. Nearly 23 percent of the firms reported higher input prices this month, compared with only 9 percent in March. However, the overall prices paid index, which hit a 28-year low in February, remains relatively low.

Manufacturers report virtually no

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upward pressure for their own manufactured goods again this month. The diffusion index for current prices received increased only slightly, from -8.9 to -6.7. For six consecutive months, the percentage of firms reporting price reductions has outnumbered the percentage reporting increases (see Chart). Diffusion indexes for future prices paid and future prices received remained virtually unchanged from their levels in the previous survey.

**Manufacturers Expect Continued Improvements**

Reported increases in manufacturing activity this month are accompanied by an improved outlook for the next six months. The future general activity diffusion index increased slightly, from

24.8 to 27.8. Nearly 46 percent of the manufacturers expect improvements in overall business during the next six months, and 18 percent expect deterioration. Future indicators for new orders and shipments also showed noteworthy increases this month. Moreover, 53 percent of the firms expect increases in new orders and shipments over the next six months.

Despite a rise in both current and future indicators this month, expectations regarding employment growth remain lackluster. Although over 53 percent of firms expect increases in new orders over the next six months, only 24 percent forecast increases in employment. The future employment diffusion index increased modestly, from -0.7 to 2.8. Similar responses were

obtained regarding manufacturers' forecasts for average work hours, and the future average workweek index also increased moderately, from 1.0 to 3.3.

**Summary**

Survey indicators for April suggest that manufacturing activity rebounded from the flat growth reported over the previous few months. A larger percentage of firms reported increases in both new orders and shipments this month, but manufacturing employment is flat at best. Firms' outlook for the next six months has improved, but caution is evident in firms' responses about employment—only a slightly larger percentage of firms expect employment expansion than expect cutbacks.

**BUSINESS OUTLOOK SURVEY**

**Summary of Returns  
April 1996**

	April vs. March				Six Months from Now vs. April			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	17.9	47.0	35.1	17.3	17.7	35.1	45.5	27.8
<b>Company Business Indicators</b>								
New Orders	22.3	38.6	35.9	13.7	17.6	28.4	53.1	35.5
Shipments	15.4	41.6	43.0	27.6	15.9	29.4	52.9	37.0
Unfilled Orders	33.8	49.9	14.2	-19.6	22.1	59.0	16.5	-5.6
Delivery Time	23.7	67.6	6.4	-17.3	23.1	62.7	10.8	-12.3
Inventories	36.6	38.2	20.8	-15.9	36.7	38.1	25.2	-11.4
Prices Paid	8.9	64.6	22.6	13.7	9.3	52.0	35.9	26.5
Prices Received	18.0	69.3	11.2	-6.7	14.5	55.8	23.7	9.2
Number of Employees	16.2	65.4	15.2	-1.1	21.4	51.8	24.1	2.8
Average Employee Workweek	14.4	66.5	18.7	4.4	17.0	57.9	20.3	3.3
Capital Expenditures	—	—	—	—	15.3	29.0	43.7	28.4

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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