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# BUSINESS

Federal Reserve Bank  
of Philadelphia

## OUTLOOK Survey

June 1997

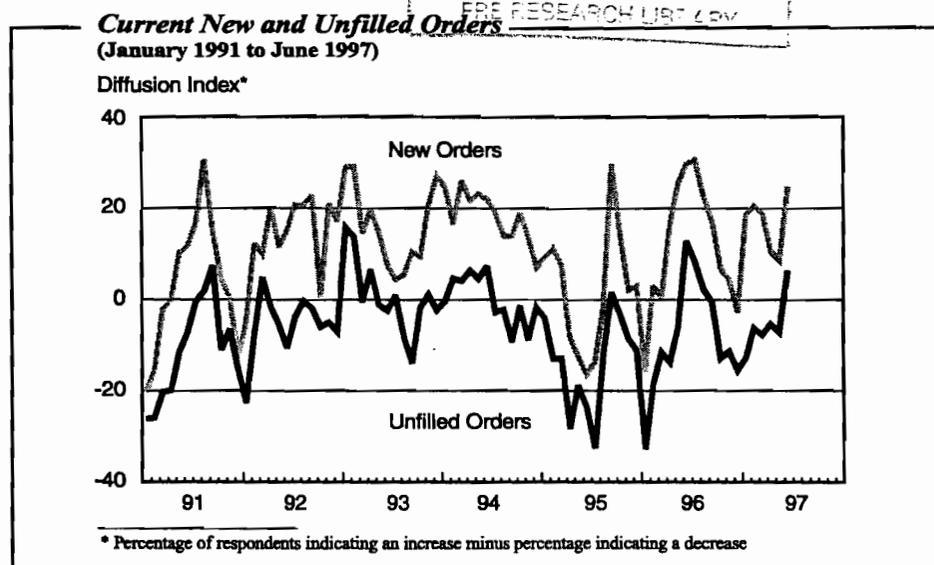
Conditions in the region's manufacturing sector improved this month, according to the firms polled for the *Business Outlook Survey*. These manufacturers report a pickup in new orders and steady growth in shipments. Labor market indicators suggest continued improvement as well.

### Current Indicators Rebound

Manufacturers report a marked improvement in general business conditions this month, with most current indicators rebounding from the relatively low readings of the previous two months. The survey's current activity index increased from 1.6 to 25.2. Survey participants report increased demand for manufactured goods: 38 percent saw a rise in new orders this month; only 13 percent had reductions. The current new orders index increased markedly from 8.6 to 24.8, its highest reading since July of last year (see Chart). Shipments continued at a steady pace, as evidenced by the current shipments index, which at 12.4 remains essentially unchanged.

The rise in new orders this month is accompanied by reported increases in unfilled orders and longer delivery times. Current indexes for both unfilled orders and delivery times moved into the positive range this month after remaining negative over the previous nine months (see Chart for unfilled orders index).

Employment conditions at reporting



firms continue to show improvement. For the sixth consecutive month, the percentage of firms reporting increases in employment (20 percent) was higher than the percentage reporting decreases (7 percent). The current employment index increased from 8.7 to 12.7. The average workweek index also increased from -3.0 to 3.8.

### Current Prices Are Near Steady

The survey's measures of manufacturing prices remain relatively well behaved. Nearly 83 percent of the polled firms report no change in prices paid for inputs. Although the percentage

of firms reporting higher input prices (16 percent) is greater than the percentage reporting lower prices (1 percent), the current prices paid index fell slightly from 16.2 to 15.0. For their own manufactured goods, 11 percent received higher prices this month and 8 percent lower prices. However, for the first time in four months, the current prices received index rose above zero, moving from -3.0 to 3.1.

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### Manufacturers' Outlook Suggests Moderate Growth Ahead

When asked about their business forecasts for the next six months, only about 34 percent of the respondents indicated that overall business would increase; 22 percent expected decreasing activity. The overall future activity index has dropped sharply over the past two months, and it fell again in June, from 17.9 to 11.9. Regarding future new orders and shipments, 38 percent of the firms expect increases in new orders and

shipments, and about 25 percent expect declines.

Firms anticipate that unfilled orders will decline from their current levels and delivery times will shorten over the next six months. Inventories are expected to remain at current levels.

With regard to their demand for labor, more firms expect to increase (22 percent) their work force than to decrease it (15 percent). On balance, firms expect some reduction in current average hours worked.

### Summary

This month's survey of large manufacturers in the region suggests overall improvement in business conditions. Most notable is an increase in current new orders and employment indicators. Despite the improvement in business conditions for the current survey month, the same firms' economic forecasts for manufacturing activity over the next six months are relatively subdued.

### BUSINESS OUTLOOK SURVEY

Summary of Returns  
June 1997

	June vs. May				Six Months from Now vs. June			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	6.7	58.7	31.9	25.2	21.7	41.2	33.6	11.9
<b>Company Business Indicators</b>								
New Orders	13.0	49.2	37.8	24.8	26.0	34.1	38.8	12.8
Shipments	20.4	46.0	32.8	12.4	24.0	32.9	38.2	14.2
Unfilled Orders	12.1	64.7	18.4	6.3	23.1	54.6	15.2	-7.9
Delivery Time	6.1	78.7	10.7	4.6	20.7	62.8	10.6	-10.1
Inventories	21.4	60.8	16.8	-4.6	31.5	34.1	29.8	-1.7
Prices Paid	1.1	82.8	16.1	15.0	7.6	53.3	35.4	27.7
Prices Received	7.8	81.4	10.9	3.1	11.4	62.3	22.8	11.3
Number of Employees	7.4	72.6	20.0	12.7	14.6	58.3	22.2	7.7
Average Employee Workweek	16.0	64.0	19.8	3.8	24.6	53.6	16.6	-8.0
Capital Expenditures	—	—	—	—	10.5	41.9	38.2	27.8

- 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.