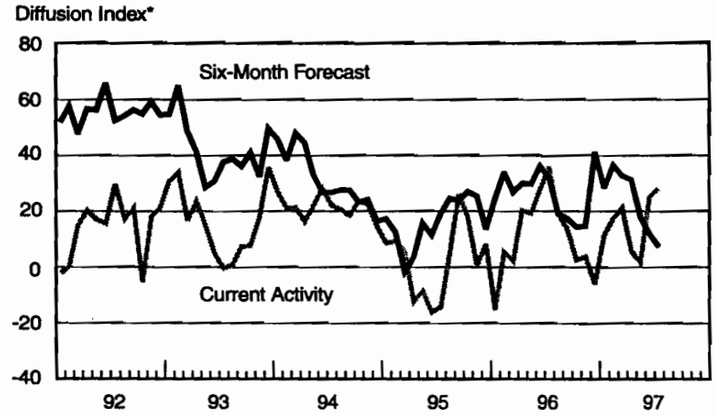
BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

July 1997

Conditions in the region's manufacturing sector are showing further improvement, according to the firms polled for the July *Business Outlook Survey*. Survey respondents report healthy growth for new orders, shipments, and employment. Despite recent improvements, most indicators that reflect the manufacturers' forecast for the next six months fell again this month, suggesting that manufacturers are cautious in their outlook for the remainder of the year.

Current and Future General Activity Indexes
(January 1992 to July 1997)



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

Current Indicators Suggest Steady Growth

Although manufacturing firms reported traditional holiday and summer closings, the seasonally adjusted diffusion index for current general activity increased from 25.2 in June to 28.1 (see Chart). Demand for manufactured goods remains strong: the current new orders index also increased slightly, from 24.8 to 29.3. Manufacturers' output is increasing along with demand as shipments increased sharply and delivery time was shorter. The current shipments index increased from 12.4 in June to 30.4. The current delivery time index returned to negative territory, declining from 4.6 to -3.2. A continued backlog of orders exists, however; the current unfilled orders index increased from 6.3 to 9.2.

Growth in manufacturing is having a positive influence on total manufacturing employment, according to the firms polled. Although 69 percent of the firms reported no change in employment this month, the percentage indicating increases (19 percent) is larger than the percentage indicating declines (11 percent). The current employment index, although falling somewhat from 12.7 to 7.7, has now remained positive for seven consecutive months. On balance, average work hours are reported near steady this month.

Survey Price Indicators Increase Moderately

When survey participants were asked how input prices have changed from the previous month, nearly 21 percent reported higher input prices, and only 1 percent reported lower prices. The survey's current prices paid index also increased moderately from 15.0 in June to 19.6. Prices for manufacturers' own goods have shown less upward movement: nearly 86 percent of the firms reported no change in their final prices for goods. The percentage reporting higher prices this month (9 percent) is slightly higher than that reporting lower prices (5 percent). The current prices received index increased from 3.1 to 4.8. Although it remains at relatively low readings, the index is the highest since May 1995.

Forecasts Are Less Optimistic

Although manufacturers expect continued growth, most indicators of future manufacturing activity fell this month. When asked to supply forecasts

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of activity for the next six months, almost 29 percent of the survey participants indicated that they expect a rise in overall business, but 22 percent expected a reduction. The overall future activity index fell for the fifth consecutive month, from 11.9 to 7.2 (see Chart). Similar reductions were recorded for the future new orders and shipments indexes. The survey respondents indicate unfilled orders are expected to fall from current levels and delivery times are expected to shorten.

The manufacturers are also somewhat less optimistic about growth in employment over the next six months. While the largest percentage of firms (65 percent) expect no change in employment over the next six months, the percentage of firms planning to hire additional workers (19 percent) is only slightly higher than the percentage expecting to reduce the work force (15 percent). The future employment index fell from 7.7 to 3.8. The future average workweek index remained negative but increased from -8.0 in June to -3.0.

Summary

Most indicators maintained their relatively high levels this month, after moving up sharply in the previous month. Although the summer months have historically been a time for factory slowdowns and holiday closings, the survey's seasonally adjusted indicators suggest continued growth in regional manufacturing. Most future indicators remain at relatively low levels. Manufacturers apparently remain optimistic, but guardedly so.

BUSINESS OUTLOOK SURVEY

Summary of Returns
July 1997

	July vs. June				Six Months from Now vs. July			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	12.6	46.7	40.7	28.1	21.7	44.9	28.9	7.2
Company Business Indicators								
New Orders	16.9	36.8	46.3	29.3	27.1	36.7	33.5	6.5
Shipments	16.1	37.3	46.5	30.4	27.2	38.6	31.9	4.7
Unfilled Orders	18.2	54.4	27.4	9.2	27.0	52.3	16.7	-10.3
Delivery Time	13.8	75.5	10.7	-3.2	23.8	65.0	7.9	-15.8
Inventories	26.8	54.1	19.1	-7.7	32.1	53.2	13.4	-18.7
Prices Paid	1.2	77.9	20.9	19.6	7.0	67.4	25.6	18.5
Prices Received	4.6	85.9	9.4	4.8	8.8	68.9	20.3	11.6
Number of Employees	11.4	69.4	19.2	7.7	15.4	65.1	19.1	3.8
Average Employee Workweek	18.5	61.2	20.3	1.8	20.9	57.1	17.9	-3.0
Capital Expenditures	—	—	—	—	7.4	49.2	20.8	13.5

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.