

BUSINESS

Federal Reserve Bank
of Philadelphia

OUTLOOK Survey

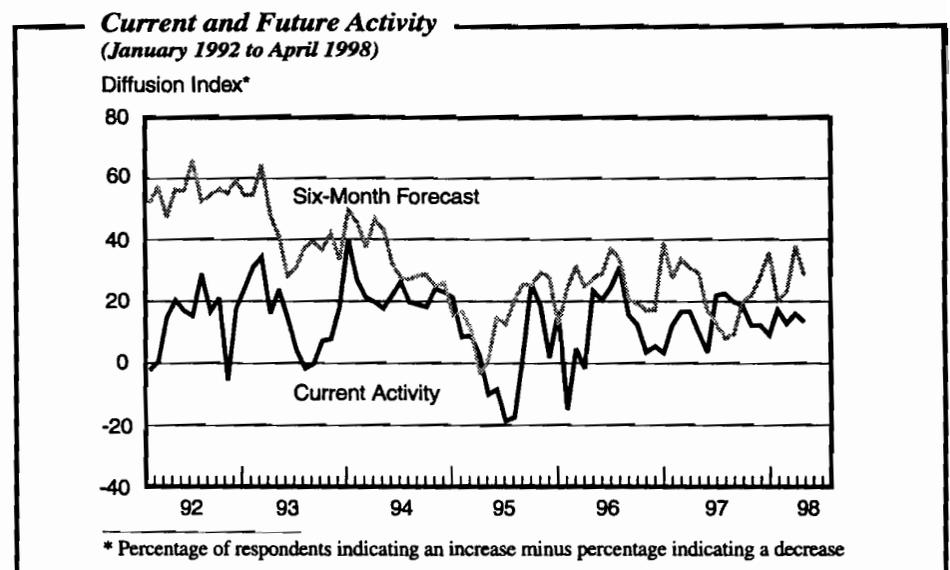
April 1998

Economic growth is continuing among the District's manufacturing establishments. The firms responding to this month's *Business Outlook Survey* indicate a continued rise in shipments and new orders. Most indicators of current economic conditions remain close to their levels of the previous month, but labor-market indicators suggest no growth in employment this month. However, the manufacturing firms are still generally optimistic about continued business gains over the next six months, although future indicators have weakened somewhat.

Manufacturing Growth Continues

The current general activity index declined from 16.1 in March to 13.4 this month. Nearly 27 percent of firms report increases in activity this month while only 13 percent report decreases. The current activity index has remained remarkably close to its current reading over the past eight months, suggesting relatively steady economic growth (see Chart).

Other indicators of current manufacturing activity also suggest little change in the growth rate of business. Indexes for current new orders and shipments remain positive and close to their readings of the previous month. Although the index for current new orders declined from 18.8 in March to 16.6, the index for current shipments increased from 14.2 to 17.6, its highest reading since August. Unfilled orders are reported near steady this month and so are delivery times. The current unfilled



orders index increased only slightly from 2.3 to 3.0. The delivery times index increased this month from -5.0 to -1.3.

Survey responses regarding current employment conditions indicate less growth for manufacturing employment this month. The current employment index dropped sharply from 14.3 to -3.6. While 22 percent of the survey respondents indicated increases in employment in March, only 12 percent reported increases this month. On balance, firms reported a decline in average work hours this month. The current workweek index fell from 3.6 to -8.9.

Input Price Pressures Are on the Wane

Manufacturers indicate near steady prices for the goods they produce and a

dampening of price pressures for raw materials and other purchased inputs. Prices of final manufactured goods are higher at 10 percent of the surveyed firms, lower at 6 percent, and steady at the remaining 84 percent. The current prices received index increased slightly from -1.2 to 4.3. Although the percentage of firms reporting higher input prices (10 percent) is greater than the percentage reporting declines (3 percent), the

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current prices paid index fell from 12.0 to 6.6, its lowest reading in 15 months. The index has been trending down since the beginning of the year.

Forecasts Are Less Optimistic This Month

Although some future indicators fell this month, respondents expect their manufacturing firms to grow over the next six months. The future activity index decreased from 38.1 in March to 28.4. Nearly 45 percent expect business conditions to improve during the next six months, but 17 percent expect a deterioration. A similar pattern of expectations

prevails with regard to future new orders and shipments: 51 percent expect a rise in new orders and 47 percent expect an increase in shipments.

Firms' forecasts for employment changes over the next six months also reflect a greater degree of caution this month compared with recent surveys. Moreover, the future employment index declined from 14.9 to 5.9, its lowest reading since September of last year. Although more than half of businesses expect a rise in new orders, only 18 percent expect to increase the number of workers; 13 percent expect employment at their firms to decrease.

Summary

Survey indicators for May suggest that growth in the region's manufacturing sector continues at a relatively steady pace. Although some indicators fell this month—most notably for employment—demand remains strong: the percentage of firms reporting increases in new orders outnumbers the percentage reporting declines more than 2:1. Pressures on input prices are reported on the wane. Responses regarding firms' plans for the next six months suggest some moderation in expectations. Fewer firms expect growth in manufacturing employment than in recent surveys.

BUSINESS OUTLOOK SURVEY

Summary of Returns April 1998

	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?	13.2	58.8	26.7	13.4	16.5	37.8	44.9	28.4
Company Business Indicators								
New Orders	12.5	57.8	29.1	16.6	17.5	31.9	50.6	33.0
Shipments	15.3	50.3	32.9	17.6	17.6	32.4	47.3	29.7
Unfilled Orders	14.9	66.9	17.9	3.0	20.3	64.0	15.8	-4.5
Delivery Time	12.2	76.0	10.9	-1.3	16.1	70.8	11.0	-5.1
Inventories	24.8	62.2	13.0	-11.9	25.9	51.1	22.9	-3.0
Prices Paid	3.4	86.6	10.0	6.6	7.8	59.3	31.9	24.1
Prices Received	6.0	83.6	10.3	4.3	9.9	64.2	20.7	10.8
Number of Employees	15.1	72.0	11.5	-3.6	12.5	69.0	18.4	5.9
Average Employee Workweek	22.4	64.1	13.5	-8.9	13.3	69.8	13.9	0.6
Capital Expenditures	—	—	—	—	13.4	35.8	35.0	21.6

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.