

BUSINESS

Federal Reserve Bank
of Philadelphia

OUTLOOK Survey

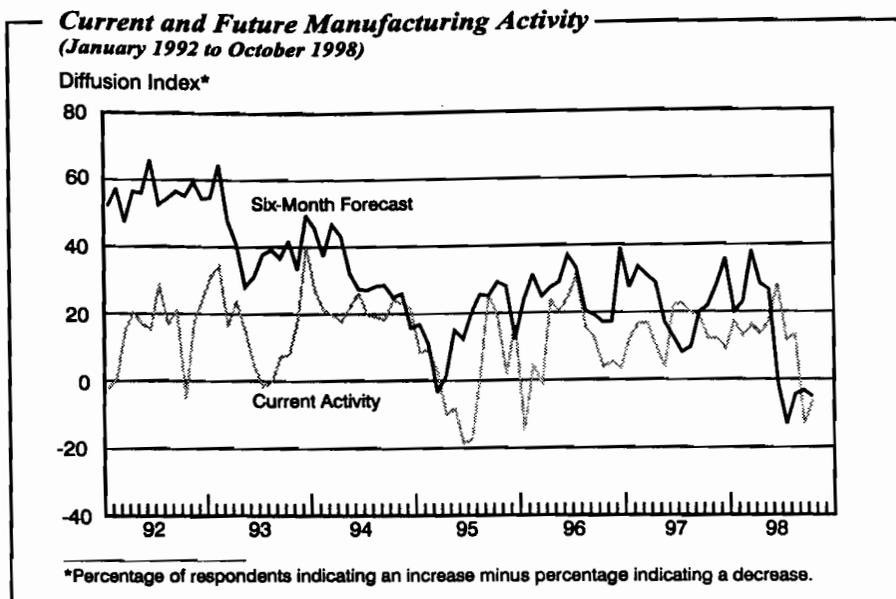
October 1998

According to this month's *Business Outlook Survey*, growth in the region's manufacturing sector remains stalled. For the second consecutive month, a greater percentage of manufacturers report a deterioration in business conditions than report improvement. Weakness in the sector has put significant downward pressure on prices of both manufacturing inputs and manufactured products. Polled manufacturers expect little improvement in business conditions over the next six months.

Current Indicators Depict Weakening

The survey's current activity index increased from -13.2 to -6.1, but has now remained negative for two consecutive months (see Chart). More than 51 percent of the manufacturers reported no change in overall business this month, and the percentage reporting declines (27 percent) exceeded the percentage reporting increases (21 percent). The current new orders index also showed improvement, moving from -5.1 to -0.5, but remained negative. The percentage of firms reporting a decline in new orders (25 percent) was essentially the same as the percentage reporting a rise in new orders this month. Although new orders appeared to be flat this month, firms reported a rise in shipments. The current shipments index remained positive and increased from 4.8 to 10.9.

Other indicators of manufacturing activity corroborate the reported weakening of overall manufacturing in recent months. Firms reported continued declines in unfilled orders; the current



unfilled orders index remains well below zero; it increased only slightly from -14.5 to -13.4. The current delivery time index crept closer to zero, however, increasing from -12 to -2.1.

Most firms (60 percent) are holding employment constant this month. The percentage of firms reporting declines is almost the same as that reporting increases (20 percent). The current employment index, at 0.7, is essentially unchanged this month. The percentage of firms reporting declines in average work hours this month (20 percent) is only slightly larger than that reporting increases (17 percent).

Price Declines Continue

Weakness in the manufacturing sector is evident again this month in reported declines in prices for manufacturing inputs and outputs. Declines in prices of raw materials and other inputs are evident in the decline in the survey's

prices paid index, which declined from -2.5 to -14.5, its lowest reading in the 30-year history of the survey. Furthermore, this index has now remained negative for four consecutive months. Prices of final manufactured goods are also reported in decline this month. The percentage of firms reporting price declines (15 percent) is higher than the percentage reporting price increases (3 percent). The current prices received index remained near its historical low, increasing slightly from -14.4 to -12.4. Firms' forecast responses suggest both input and output prices will remain near steady over the next six months.

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Manufacturing Forecasts Remain Subdued

Firms' forecasts suggest little growth in the manufacturing sector is expected during the next six months. Most of the survey's broadest indicators of future manufacturing performance declined from their readings of the previous month. The future general activity index declined from -3.2 to -5.1 and has remained below zero for five consecutive months (see Chart). Respondents remain significantly divided regarding the direction of change over the next six months: 34 percent anticipate decreases; 29 percent expect increases; and 30 percent expect no change in activity. Firms' responses regarding growth in shipments and new orders suggest growth will be slow over

the next six months: the indexes remain positive but at relatively low levels, and both fell modestly from their readings of the previous month. Firms also expect declines in unfilled orders and a shortening of delivery times over the next six months.

On the employment front, the largest percentage of firms (48 percent) expect to maintain current employment levels over the next six months; 26 percent expect increases, and 20 percent declines. The future employment index increased modestly from 5.2 to 6.3. Firms expect declines in the average workweek, however.

Summary

The manufacturing firms polled for this month's *Business Outlook Survey*,

on balance, reported a deterioration in business conditions again this month. Although more firms reported increases in shipments than reported declines, responses regarding new orders suggested no increases in demand. Weakening conditions were evident in reported declines in unfilled orders and shorter delivery times. Firms also reported declines in prices paid for inputs as well as prices for the firms' own manufactured goods. There was a slight deterioration in firms' forecasts compared with those of previous surveys. A significant division between those forecasting improvement and those expecting a deterioration suggests a great deal of uncertainty about the short-run prospects of the region's manufacturing sector.

BUSINESS OUTLOOK SURVEY

Summary of Returns October 1998

	October vs. September				Six Months from Now vs. October			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity? Company Business Indicators	26.8	51.5	20.7	-6.1	34.4	30.0	29.3	-5.1
New Orders	25.2	49.2	24.7	-0.5	28.3	30.5	33.9	5.6
Shipments	20.5	46.5	31.3	10.9	30.6	30.4	33.3	2.7
Unfilled Orders	29.7	53.9	16.3	-13.4	27.2	52.2	17.6	-9.5
Delivery Time	12.9	73.5	10.7	-2.1	24.7	60.5	9.1	-15.7
Inventories	34.0	49.8	16.2	-17.8	27.5	40.8	22.3	-5.2
Prices Paid	18.2	74.8	3.7	-14.5	16.8	61.0	19.0	2.2
Prices Received	15.4	81.6	3.0	-12.4	19.4	63.1	15.7	-3.7
Number of Employees	19.6	60.1	20.3	0.7	19.6	47.9	26.0	6.3
Average Employee Workweek	19.7	63.9	16.5	-3.2	27.2	52.4	15.8	-11.4
Capital Expenditures	—	—	—	—	15.2	41.4	25.5	10.4

- 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.