BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

October 1999

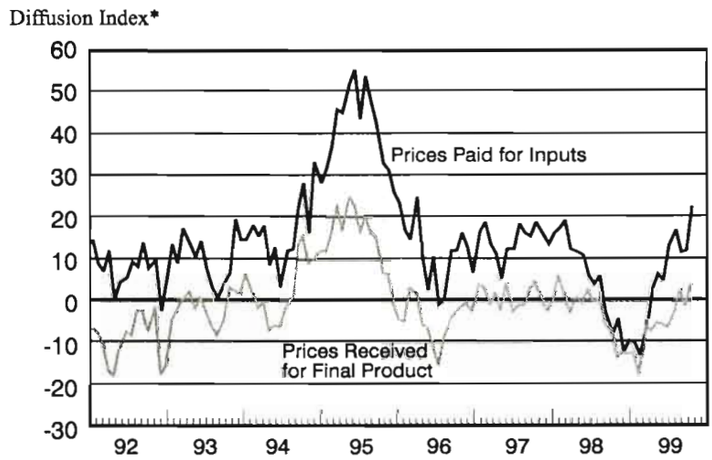
Business Outlook Survey respondents report an expansion of current business activity again this month. Some of the survey's current indicators increased from their readings in the previous month while others declined, but overall the measures suggest modest growth in the region's manufacturing sector. Notably, manufacturers reported increases in input prices this month. Measures of the manufacturers' six-month business forecasts showed some improvement compared with those in the previous survey.

Responses Indicate Continuing Growth

The current general activity index decreased from 17.6 in September to 6.9 this month. Although over 64 percent of the manufacturers report no change in the overall level of activity from the previous month, the percentage reporting increases (20 percent) exceeded the percentage reporting decreases (13 percent). Indicators for new orders and shipments moved in the opposite direction of the general activity index this month. The current new orders index increased from 6.9 to 20.2, and the current shipments index increased from 5.5 to 19.8.

Increases in orders and shipments were not accompanied by any unusual delivery pressures. Delivery times were reported shorter this month—the current delivery times index remained negative for the second consecutive month but increased from -11.3 to -6.2. The current unfilled orders reading suggests little change in backlogs, although the index increased from -6.9 to 1.3.

Current Prices Paid and Prices Received
(January 1992 to October 1999)



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

Survey responses suggest near steady manufacturing employment conditions this month; the percentage of firms reporting increases in employment (16 percent) is very near the percentage reporting decreases (12 percent). The current employment diffusion index also declined this month, from 9.9 to 3.5. Average work hours were reported near steady: the current average workweek index, however, increased from -5.6 to 4.3.

Input Price Increases Reported

Twenty-eight percent of manufacturers polled reported increases in input prices this month, while nearly 6 percent reported declines. The current prices paid index increased notably from 11.8 to 22.5, its highest reading in four years (see chart). Despite reported increases in input prices, prices of final manufactured goods do not show the same degree of upward pressures. Over 81 percent of the manufacturers polled indicated steady prices for final goods, while the percentage reporting increases (11 percent) was only slightly higher than the percentage indicating lower prices (7 percent). Nevertheless, the current prices received index increased this month, from -1.6 to 3.7, and was above zero for the second time in three months (see chart).

There was a notable change in

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expectations regarding future price increases this month. The future prices paid index, which reflects the manufacturers' expectations regarding input price changes over the next six months, rose from 23.0 to 43.7. The future prices received index also increased, from 3.7 to 12.0.

Forecast Indicators Improve

Despite the mixed performance of current indicators this month, nearly all future indicators showed improvement. The diffusion index of future general activity increased from -8.2 in September to 7.1. Over 25 percent of the firms polled expect increases in general business activity over the next six months; 18 percent expect decreases. Expectations for future orders and shipments also improved: the future new orders index rose from 11.9 to 22.4, and the future shipments index rose from 8.0 to 20.0. Nearly 39 percent of the firms expect increases in new orders, and over 37 percent expect increases in shipments. Unfilled orders are expected to decline, and delivery times are expected to shorten over the next six months.

Optimism is also evident in responses regarding employment forecasts. The percentage of firms expecting higher employment levels over the next six months (28 percent) is greater than the percentage expecting lower employment levels (8 percent). The future employment index increased from 9.4 to 20.1, nearer its average reading over the first eight months of the year. On balance, firms also expect increases in the average workweek over the next six months.

Summary

Survey measures in this month's *Business Outlook Survey* suggest continued growth in regional manufacturing activity. Although the general activity index fell this month, responses regarding new orders and shipments suggest continued strength. Two notable changes in this month's survey are the reported rise in input prices and a rise in expectations regarding future increases in prices for both inputs and final manufactured goods. Expectations for future growth in the manufacturing sector were significantly improved this month.

BUSINESS OUTLOOK SURVEY

Summary of Returns
October 1999

	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?	13.2	64.3	20.1	6.9	18.3	52.8	25.4	7.1
Company Business Indicators								
New Orders	12.5	53.2	32.7	20.2	16.2	41.4	38.6	22.4
Shipments	12.5	51.5	32.3	19.8	17.3	38.6	37.3	20.0
Unfilled Orders	13.3	71.0	14.6	1.3	28.8	50.6	19.7	-9.0
Delivery Times	7.2	88.6	1.0	-6.2	18.6	64.6	11.3	-7.3
Inventories	24.2	63.9	12.0	-12.2	18.7	57.5	13.9	-4.9
Prices Paid	5.5	64.2	28.0	22.5	2.1	50.0	45.8	43.7
Prices Received	7.4	81.4	11.1	3.7	13.3	61.4	25.3	12.0
Number of Employees	12.4	68.4	15.9	3.5	8.2	60.1	28.3	20.1
Average Employee Workweek	13.2	68.9	17.5	4.3	12.4	65.4	19.9	7.5
Capital Expenditures	—	—	—	—	3.1	41.5	30.0	26.9

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.