BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

April 1999

In the past few months, indicators in the *Business Outlook Survey* have been suggesting improvement in regional manufacturing conditions. This month, the region's manufacturers have reported a pickup in the rate of growth. The growth in the manufacturing sector has resulted in modest increases in employment and hours worked, according to firms polled. Optimism regarding future growth, while more guarded than last month, remains relatively high.

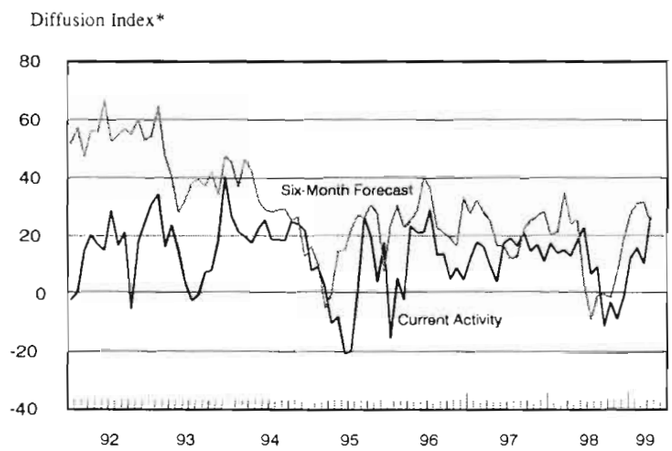
Current Indicators Reflect Growth

The current index of general activity increased sharply this month, from 10.4 to 26.4. The increase marks the highest reading of the index since September 1995 (see chart). Over 39 percent of the manufacturers reported increases in the level of general business activity this month; 13 percent reported decreases.

The reported acceleration of growth in manufacturing activity, however, was not as notable in other indicators of performance, but they also reflect healthy growth. The current new orders index, now at 25.0, fell somewhat from its relatively high reading of 27.1 in March. The current shipments index also fell modestly, from 16.3 to 15.7. For the first four months of 1999, the indexes for both current new orders and shipments have remained at significantly higher levels than those recorded over the third and fourth quarters of 1998.

For the first time in 10 months, the indexes for unfilled orders and delivery times were both positive. The percentage of firms reporting an increase in unfilled orders (24 percent) was slightly higher than the percentage of firms reporting a decrease (15 percent). On balance, delivery times were also reported longer this month: 14 percent of firms reported longer delivery times, and 9 percent reported shorter times.

Current and Future General Activity Indexes
(January 1992 to April 1999)



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

The reported expansion of regional activity was accompanied by increases in employment and average work hours of manufacturing workers. The current employment diffusion index increased from 1.8 in March to 6.7. More firms reported increases in employment (18 percent) than reported decreases (12 percent). The percentage indicating increases in average work hours (22 percent) also exceeded the percentage indicating decreases (13 percent) for the second consecutive month.

Some Firms Report Input Price Increases

For the second consecutive month, the percentage of firms reporting an increase in input prices (18 percent) exceeds the percentage reporting a decrease (12 percent). The current prices paid index, which has now remained positive for two consecutive months, increased from 2.6 to 6.2. The index had been negative over the preceding eight months.

Upward price pressures for final manufac-

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Economic Research Division Ten Independence Mall, Philadelphia, PA 19106-1574

tured goods are not evident. For the tenth consecutive month, the current prices received index was negative and remained virtually unchanged at -5.3 this month. The largest percentage of firms reported steady prices for their own final goods (67 percent), and the percentage reporting lower prices (19 percent) exceeded the percentage reporting higher prices (14 percent).

Forecast Indicators Retreat This Month

Following five monthly increases, the survey's index of future general activity fell from a reading of 31.6 in March to 24.4 (see chart). Despite the one-month retreat in the indicator, expectations remain relatively buoyant. The percentage of firms expecting a rise in the level of general business activity (39 percent) substantially exceeds the percentage expecting declines (15 percent). Similarly, 42 percent of those surveyed expect a rise in new orders, and 43 percent expect a rise in shipments over the next six months. Both the future new orders index and future shipments index fell, however, sliding from what had been their highest levels in a year.

The share of firms expecting increases in employment over the next six months (17 percent) exceeds, by a small margin, the share expecting decreases (14 percent). The future employment index fell from its one-year high of 17.9 in March to 3.3 this month. On balance, firms expect to increase average work hours over the next six months.

SUMMARY

Growth of the region's manufacturing sector is continuing, and a few of the survey's indicators this month even suggest an acceleration of growth. Although a larger share of firms reported higher input prices this month, the survey reveals no evidence that final prices of manufactured goods are experiencing upward pressure. Although the manufacturers' forecasts remain relatively rosy, several future indicators fell from their relative highs over the past few months.

BUSINESS OUTLOOK SURVEY

Summary of Returns
April 1999

	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?	12.7	46.8	39.1	26.4	14.9	44.3	39.3	24.4
Company Business Indicators								
New Orders	13.7	47.7	38.6	25.0	18.7	38.4	42.2	23.5
Shipments	18.6	44.9	34.3	15.7	14.5	40.4	42.6	28.2
Unfilled Orders	15.3	60.6	24.1	8.8	21.6	55.8	21.1	-0.5
Delivery Time	8.8	76.2	14.3	5.5	22.5	63.4	12.8	-9.7
Inventories	19.5	54.4	26.1	6.5	26.6	47.0	26.5	-0.1
Prices Paid	11.6	70.5	17.8	6.2	8.3	67.3	24.5	16.2
Prices Received	19.1	67.1	13.8	-5.3	19.2	62.0	16.8	-2.5
Number of Employees	11.8	67.3	18.4	6.7	13.5	65.1	16.7	3.3
Average Employee Workweek	13.4	63.0	21.7	8.3	12.4	58.6	25.0	12.5
Capital Expenditures	—	—	—	—	7.4	46.5	29.4	22.0

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.