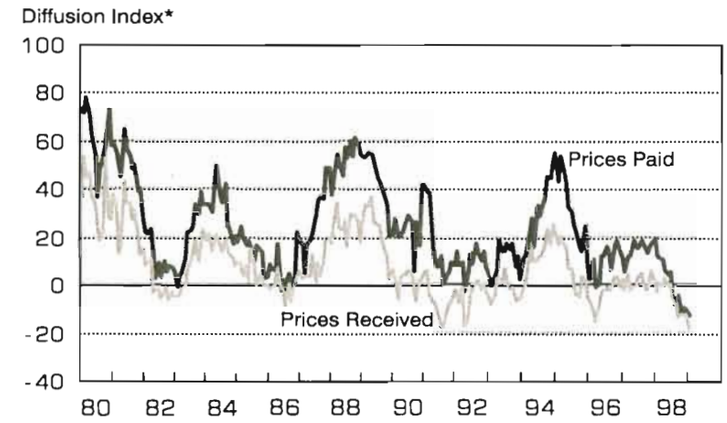
BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

January 1999

Conditions in the region's manufacturing sector showed signs of improvement in starting the new year. Most current *Business Outlook Survey* indicators suggest growth in activity this month, compared with readings in recent months suggesting declines. Despite the improvement in manufacturing activity, indexes for the change in manufacturing input and output prices are at historically low levels. Those surveyed for this month's release also indicated an improved outlook for their manufacturing business over the first six months of 1999.

Current and Future Activity
(January 1980 to January 1999)



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

MOST CURRENT INDICATORS RISE

Most of the survey's current indicators recorded positive readings this month. For the first time since August, the current general activity index was positive and increased from a revised -0.8 in December to 12.4 this month.[1] Although nearly 60 percent of the firms responding indicated no change in activity from the previous month, the percentage indicating increases (26 percent) was greater than the percentage indicating decreases (14 percent). Both new orders and shipments were also higher this month. The current new orders index increased from a revised 0.6 in December to 18.0 this month. The current shipments and delivery time indexes also showed improvement: the shipments index increased from 6.7 to 17.0, while the delivery time index increased from -12.8 to 10.6.

Other indicators of performance this month paint a mixed picture of the strength of growth. Although more firms continue to report declines in unfilled orders (19 percent) than report increases (12 percent), the current unfilled orders index rose moderately. According to those surveyed, manufacturing employment is also flat this month, with nearly the same percentage of firms reporting an increase in employed workers as reporting a decline (about 13 percent). Firms reported lower average work hours: the average workweek index declined from 1.6 to -11.2.

MANUFACTURING PRICES REPORTED LOWER

The survey's measures of changes in manufacturing prices indicate lower prices for both inputs and final products this month. Moreover, the survey's current prices paid and prices received indexes reached historically low levels (see chart). Eighty-two percent of

[1]Each year, the Federal Reserve Bank of Philadelphia revises historical data for the *Business Outlook Survey* after calculating new seasonal adjustment factors. The table included with this month's release contains the revised indexes for five of the diffusion index series, although all of the historical series were affected by the revisions. Complete historical data are available on our Internet site (see box below). Detailed instructions for downloading the data are available at 'http://www.phil.frb.org/econ/bos/boshist.html'.

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respondents reported steady prices received for their own manufactured goods this month. Eighteen percent of firms reported lower prices, while no firms reported price increases this month. The current prices received index fell to a near low for the series, falling from -12.5 to -18.0.

Prices of inputs are on the decline as well, according to survey respondents. Over 15 percent of the firms surveyed reported input price declines this month; 2 percent reported increases. The current prices paid index also reached a record low, falling from -10.1 to -13.2.

IMPROVEMENT SPURS OPTIMISM

Reported improvement in current conditions this month is paralleled by a notable improvement in expectations. The future activity index, which has now risen for three consecutive months, increased from a revised reading of 19.2 in December to 27.6. The percentage of firms expecting increases in activity over the next six months (44 percent) is significantly greater than the percentage expecting decreases (16 percent). Firms' responses expressed similar optimism regarding questions about future new orders and shipments.

Strengthening activity is expected, and slightly more firms expect a rise in unfilled orders than expect a fall. Similarly, more firms now expect longer delivery times than expect shorter ones. Survey participants also expect increases in employment over the next six months. Among those polled, 28 percent forecasted a rise in employment over the next six months; 14 percent forecasted a decline. The future employment index increased from 8.5 to 14.4, paralleling the rise in optimism about future business conditions.

SUMMARY

Responses from this month's *Business Outlook Survey* suggest a notable improvement compared with recent months. While surveys conducted in the previous four months suggested declines in activity, this month's report suggests an increase. However, the improvement is tempered by the lack of overall growth in manufacturing employment and declines in manufacturing prices, according to those polled. Firms' improved outlook in this and recent surveys is a positive trend.

BUSINESS OUTLOOK SURVEY

Summary of Returns
January 1999

	January vs. December				Six Months from Now vs. January			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	13.8	59.8	26.2	12.4	16.3	34.4	43.9	27.6
Company Business Indicators								
New Orders	18.6	42.3	36.6	18.0	17.1	30.6	48.2	31.2
Shipments	18.5	44.5	35.5	17.0	19.4	25.8	48.9	29.5
Unfilled Orders	19.2	63.6	12.4	-6.8	22.3	46.9	27.0	4.7
Delivery Time	8.3	72.8	18.9	10.6	18.8	57.5	21.1	2.3
Inventories	28.0	59.5	10.4	-17.7	23.6	47.0	27.9	4.2
Prices Paid	15.1	80.9	1.9	-13.2	10.3	53.4	31.8	21.6
Prices Received	18.0	81.6	0.0	-18.0	18.8	50.2	26.8	7.9
Number of Employees	13.2	71.6	13.7	0.5	13.7	50.6	28.1	14.4
Average Employee Workweek	20.9	65.8	9.7	-11.2	11.3	56.2	28.1	16.8
Capital Expenditures	—	—	—	—	6.4	50.2	26.6	20.2

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.

Selected Revised Diffusion Indexes, Business Outlook Survey
*(1990 - 1998)**

Current General Activity

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	-7.5	-22.0	-22.0	-9.1	-16.5	-8.6	-17.6	-18.3	-43.2	-48.3	-27.2	-37.4
1991	-32.0	-21.9	-11.7	-6.6	3.9	13.0	20.6	26.9	20.2	9.4	1.2	-19.2
1992	-2.2	0.6	14.9	20.3	17.0	15.1	28.7	16.7	21.2	-5.2	18.0	24.5
1993	30.8	34.4	16.2	23.8	14.8	3.8	-2.2	-0.3	7.5	8.2	18.6	40.4
1994	26.7	21.4	19.8	17.6	22.4	25.4	18.7	18.7	18.4	24.9	24.2	22.1
1995	8.1	9.5	2.6	-10.1	-7.8	-20.5	-19.6	1.2	26.6	20.0	4.2	17.7
1996	-15.3	5.4	-2.0	23.4	21.2	21.4	29.0	13.5	13.9	5.2	9.0	5.0
1997	12.0	17.8	16.4	9.8	4.3	17.4	19.3	16.6	21.1	14.8	17.0	11.2
1998	17.5	14.1	15.2	13.1	18.6	22.9	6.9	9.4	-11.1	-2.7	-8.6	-0.8

Current Employment

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	-8.7	0.5	-16.1	-10.0	-14.4	-15.2	-16.1	-19.2	-22.5	-20.4	-26.3	-21.6
1991	-21.1	-21.5	-18.5	-24.5	-11.1	-9.2	-13.5	-8.1	0.9	-11.6	-9.4	-21.2
1992	-7.9	-19.9	-4.8	-6.1	-4.5	7.6	3.5	-0.4	0.2	-10.2	-8.5	0.0
1993	0.0	3.7	-5.3	-2.9	2.8	-9.1	-12.2	-13.5	-7.2	5.1	-5.4	3.9
1994	6.3	4.0	5.2	9.2	5.3	3.2	4.5	4.5	2.2	9.4	10.6	2.5
1995	1.5	9.8	0.4	-17.8	-14.8	-14.0	-20.2	-13.0	8.9	1.7	-3.5	-11.1
1996	-9.3	-8.1	-4.1	1.8	4.1	3.0	7.3	3.3	8.0	-2.0	1.7	-1.1
1997	4.2	2.3	4.9	7.4	6.7	8.4	4.8	10.8	-2.0	-0.3	2.5	8.7
1998	-0.3	15.2	10.3	-1.3	5.2	5.7	3.7	7.8	1.7	4.2	0.7	1.7

Current Prices Paid

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	21.3	22.1	26.9	29.3	26.7	5.9	26.6	16.2	41.9	42.1	39.1	39.1
1991	14.5	8.9	7.0	11.6	0.0	4.2	5.3	9.1	8.0	13.8	7.7	9.6
1992	-2.6	5.1	13.3	8.9	16.9	13.2	10.2	14.2	7.6	3.1	0.4	4.1
1993	6.4	19.3	14.4	14.5	17.8	15.2	17.8	8.3	12.5	2.9	11.9	12.3
1994	21.9	28.0	16.0	33.2	28.2	31.6	36.7	45.7	44.8	51.6	55.0	43.3
1995	53.7	47.7	42.5	32.8	31.1	26.0	23.3	16.6	14.3	24.8	10.0	2.1
1996	10.4	-1.0	0.1	11.8	11.7	16.1	12.5	6.4	16.4	18.7	13.2	11.0
1997	5.1	12.2	12.0	18.4	15.9	15.1	18.5	16.4	13.3	15.9	17.2	19.1
1998	12.0	11.4	10.8	5.8	3.9	5.6	-2.9	-8.4	-4.7	-12.6	-10.0	-10.1

Current Prices Received

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	1.9	3.8	4.3	6.3	5.4	-0.9	-7.4	2.0	1.3	4.9	6.3	-4.1
1991	-7.0	-8.4	-10.8	-16.7	-18.2	-11.4	-7.5	-8.2	-2.7	-2.7	-7.6	-1.5
1992	-17.8	-15.7	-5.1	-2.2	0.0	2.2	-2.3	0.6	-2.6	-6.2	-8.5	-4.7
1993	3.2	2.3	1.4	6.5	1.5	-1.8	-0.3	-7.1	-6.1	-6.6	-1.1	0.7
1994	12.9	15.6	9.3	9.7	12.0	11.6	16.4	23.1	16.8	24.9	22.7	16.2
1995	20.6	16.3	15.1	6.5	6.4	-0.6	-4.6	-5.0	3.3	1.1	-5.6	-6.4
1996	-10.9	-15.4	-8.9	-4.6	-2.7	-1.7	-0.7	-2.8	3.7	3.1	-1.0	1.8
1997	-2.6	4.2	-2.7	-1.0	-1.0	2.5	4.6	0.9	-2.6	0.8	6.1	1.5
1998	-2.9	0.7	-0.7	2.5	-0.4	0.4	-5.3	-7.9	-13.5	-12.6	-12.9	-12.5

Future General Activity

Diffusion Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	9.5	-0.2	13.3	13.5	13.6	18.7	5.2	1.7	-17.7	-11.0	6.6	11.8
1991	-11.4	26.8	40.1	40.6	51.6	59.4	63.3	66.6	71.6	71.4	64.4	65.5
1992	51.8	57.3	47.2	56.2	55.8	66.7	52.7	54.5	56.7	55.3	60.1	53.1
1993	54.5	64.5	47.7	40.6	28.0	32.3	38.1	39.5	37.0	42.0	34.0	47.3
1994	45.4	36.9	46.2	42.6	32.3	29.1	28.2	29.0	29.3	25.4	26.5	12.7
1995	16.6	10.4	-4.7	-0.2	14.8	14.9	22.2	27.1	26.3	30.6	27.8	7.9
1996	23.8	30.5	22.8	25.1	28.7	40.4	36.4	22.8	21.2	19.3	16.5	33.2
1997	27.6	32.3	28.1	25.2	16.6	16.7	12.2	12.9	22.4	25.2	26.9	28.5
1998	20.3	21.2	34.9	24.3	25.5	3.6	-8.8	-0.5	0.0	-1.3	7.1	19.2

* Revised historical data prior to 1990 and revisions to other series are available on the Bank's Internet site at 'http://www.phil.frb.org/econ/bos/boshist.html'.