

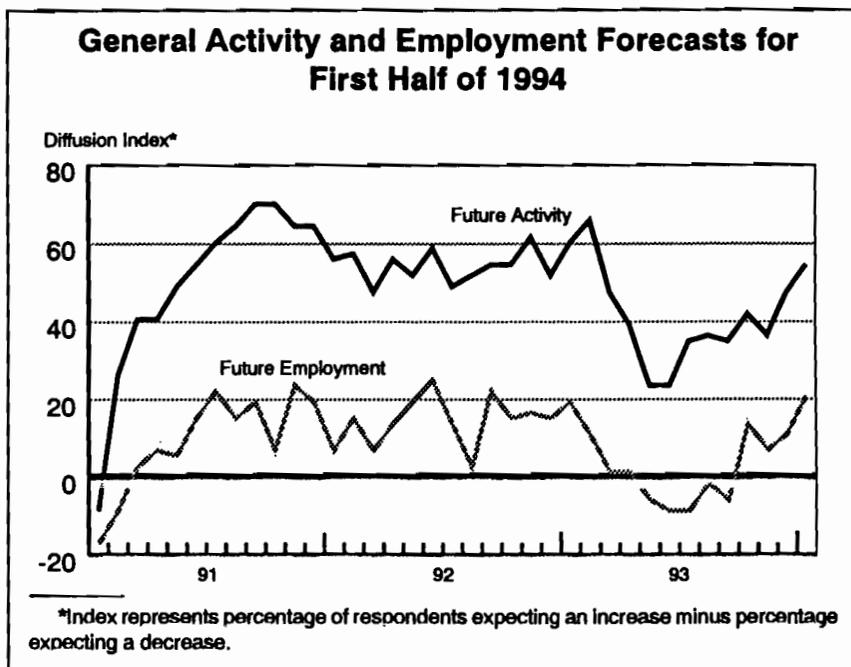
# Business Outlook Survey

## Economic Research Division

The region's manufacturing sector is continuing its expansion, according to this month's *Business Outlook Survey*. Although the survey's general activity index dipped from its relatively high level in December, it remains strongly positive. The improving conditions in the manufacturing sector are resulting in increased manufacturing employment as well. Respondents expect the positive trend to continue over the next six months. On the negative side, the increased activity is accompanied by increasing input and output prices.

### CURRENT CONDITIONS

The general business activity diffusion index, at 34.2 indicates healthy growth, despite the fact that the index dipped from a revised 42.9 in December.<sup>1</sup> The index, however, remains above levels recorded in the nine months prior to December. The survey's other current indicators also suggest that the manufacturing sector is expanding. Like the general activity index, indexes for both manufacturing shipments and new orders are lower than in December, but they remain at relatively high levels, suggesting continued growth. About 35 percent of the reporting firms indicate increases in shipments this month; 12 percent report declines. New orders are also reported higher at 32 percent of the firms, compared with only 6 percent



reporting decreases. Those surveyed report that current inventories are declining; delivery time and unfilled orders, however, are virtually unchanged this month.

The current employment index improved again this month. The current employment diffusion index, which stood at 6.4 in December, increased to 10.0 this month. Over 79 percent of the reporting institutions indicate no change in employment, and the still relatively small proportion of firms reporting increases in employment this

month (15 percent) is partially offset by the 5 percent reporting employment declines.

### PRICES

Surveyed manufacturers report higher prices for purchased inputs this month. The diffusion index for prices paid by manufacturers increased markedly from a level of 8.6 in December to 25.7 this month. Although more than 66 percent of the firms report no change in input prices, almost 30 percent report price increases; only 4 percent



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report declines. Furthermore, almost 40 percent expect further increases in input prices in the next six months.

On balance, manufacturing firms report higher prices of their manufactured goods. The index for current prices received increased from -0.4 in December to 15.3 this month, the first positive reading of this index since May of last year. Although the largest proportion of firms report no change in their prices (85 percent), no firms reported price reductions this month, and 15 percent report price increases. (Over the previous eight months no less than 10 percent of respondents had reported price reductions.)

#### OUTLOOK

The region's manufacturing firms begin the new year with a rosier forecast for the first half of 1994. The future general activity index, which reflects firms' expectations for general business activity over the next six months,

increased from a revised level of 48.7 in December to 55.2 this month. The index has been trending upward over the past seven months (see Chart). The survey's indicators for both future shipments and new orders have shown a similar pattern. On balance, firms anticipate that increasing demand, spurred by increases in new orders, will be matched with higher production and stable inventories over the next six months. Unfilled orders are expected to rise above current levels and almost 81 percent of the reporting firms expect delivery times to remain constant.

At many firms, increases in production will require increases in both the number of workers employed and in the average workweek. Over 29 percent of the reporting firms anticipate new hires in the next six months; only 9 percent report plans to cut employment over the next six months. The future employment diffusion index edged higher in January to 20.5 and

has been drifting upward over the past six months (see Chart).

#### SUMMARY

The manufacturing firms contacted for this month's *Business Outlook Survey* report a continuation of improving business conditions. The survey's current indicators, although down from December's relatively high levels, remain higher than the levels recorded over most of 1993. According to the forecasts of those polled, the first half of 1994 will see further improvement in manufacturing conditions and increases in total employment.

<sup>1</sup>The revisions are the result of new seasonal factors calculated at the beginning of each calendar year. The December 1993 index was revised from 42.4 to 42.9. Historical revisions for all series are available upon request from the Fed's publication desk: (215) 574-6428.

### BUSINESS OUTLOOK SURVEY Summary of Returns January 1994

Indicator	January vs. December				Six Months from Now vs. January			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
<b>General Business Conditions</b>								
What is your evaluation of the level of general business activity?	2.8	58.1	36.9	34.2	5.8	31.0	61.0	55.2
<b>Company Business Indicators</b>								
New Orders	5.6	59.6	32.4	26.8	7.0	26.2	64.3	57.4
Shipments	11.6	49.4	34.6	23.0	5.5	30.5	61.4	55.8
Unfilled Orders	19.0	61.2	16.4	-2.6	6.9	62.3	30.8	23.9
Delivery Time	9.3	78.3	10.9	1.6	11.8	80.7	5.9	-5.9
Inventories	30.0	56.5	13.5	-16.4	24.1	53.1	22.8	-1.4
Prices Paid	4.0	66.3	29.7	25.7	2.3	57.1	39.5	37.2
Prices Received	0.0	84.6	15.3	15.3	3.1	68.1	26.8	23.7
Number of Employees	5.3	79.3	15.3	10.0	8.8	61.8	29.3	20.5
Average Employee Workweek	8.0	73.8	16.6	8.6	6.4	71.8	20.3	14.0
Capital Expenditures	—	—	—	—	3.4	56.4	26.0	22.7

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.