

BUSINESS

Federal Reserve Bank
of Philadelphia

OUTLOOK Survey

February 1995

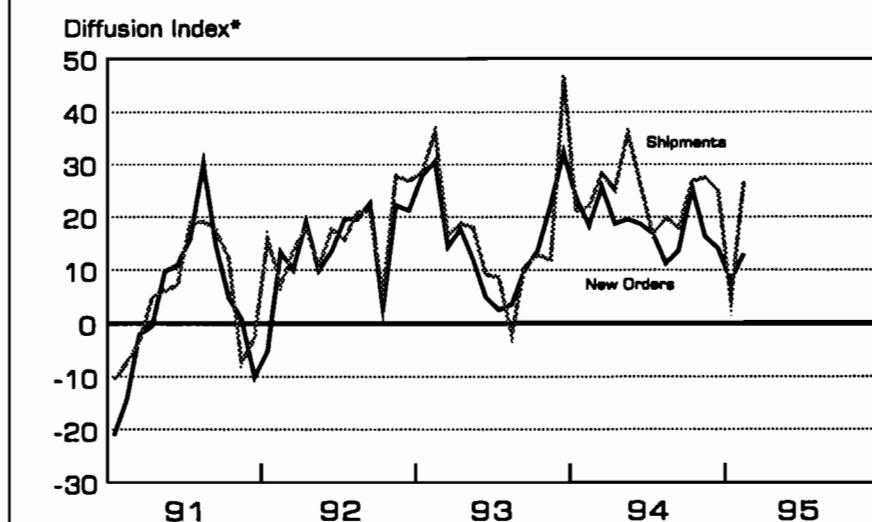
The region's manufacturers report continued growth in this month's *Business Outlook Survey*. Most of the survey's current economic indicators, including new orders, shipments, and employment, show gains this month. A smaller percentage of firms this month report higher prices paid and prices received. Expectations of slowing growth over the next six months are evident from some of the Survey's future economic indicators, which reached their lowest levels in more than four years.

CURRENT INDEXES SUGGEST CONTINUED GROWTH

On balance, business conditions in the region's manufacturing sector continue to improve. Although nearly 68 percent of the respondents surveyed indicate no change in activity from the previous month, firms reporting increased activity (22 percent) outnumber those reporting declines (10 percent). The diffusion index for current general activity edged up slightly from 10.4 to 11.9. The average level of the index over the past two months is considerably lower than levels achieved in 1994, suggesting a recent slowing of growth.

Other indicators of current manufacturing performance also increased this month (see Chart). Growth in new orders is reported by 28 percent of the respondents, and the current new orders diffusion index increased from 8.0 in January to 13.0. Shipments are reported higher this month at more than 35 percent of the reporting institutions, and the current shipments index rebounded from 4.5 to 26.7 this month. Although continued growth is evident in the current indexes for new orders and shipments, indexes for unfilled orders and delivery times remained nega-

Current New Orders and Shipments Indexes
(January 1991 to February 1995)



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

tive for the second consecutive month, suggesting weakening growth.

The Survey's current employment index strengthened this month, from 2.4 to 10.5. Although 77 percent of the manufacturers report no change in employment, the firms hiring (17 percent) outnumber those making cuts (6 percent). On balance, the average workweek is steady this month.

PRICE INCREASES SHOW SOME MODERATION

Diffusion indexes for both prices paid and prices received declined this month. The current prices paid index, which reflects prices for materials and other purchased inputs, declined from a reading of

55.0 in January to 46.2 (the index reached a high of 56.5 in November). About 46 percent of the manufacturers report higher input prices, compared with 59 percent in the preceding month. Prices received for their own manufactured goods increased at 22 percent of the firms and decreased at 9 percent. The current prices received diffusion index dipped from 24.4 to 12.7.

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Price expectations for the next six months show the survey's future prices paid and prices received indexes remaining at relatively high levels. More than 55 percent of those surveyed expect higher prices for their inputs over the next six months, and more than 33 percent expect increases for their own manufactured goods. Both the future prices paid index (which increased from 45.5 to 51.0) and the future prices received index (which declined from 34.0 to 28.1) are both near their average level for the previous three months.

FIRMS FORECAST SLOWING GROWTH

Future economic indicators suggest that manufacturers expect some slowing of growth over the next six months. The survey's broadest indicator, the future general activity diffusion index, declined from 23.7 to 13.2, the lowest reading since January 1991. Indexes for future new orders and shipments, while remaining positive, also fell this month. On balance, unfilled orders are expected to decline over the next six months, and delivery times are expected to shorten.

For the first time since September, the future employment diffusion index fell below zero (declining from 5.5 to -3.6). While

65 percent of the manufacturers plan no change in employment, 16 percent plan increases, but this is offset by 19 percent planning to make cuts. On balance, the average workweek for those currently employed is expected to remain steady.

SUMMARY

Most of the Survey's indicators of current economic conditions improved modestly this month, although the shipments index increased sharply. Although the survey's current price indexes declined this month, they remain at relatively high levels. The polled manufacturers expect growth to continue, but they expect the pace of growth to slow.

BUSINESS OUTLOOK SURVEY

Summary of Returns
February 1995

| | February vs. January | | | | Six Months from Now vs. February | | | |
|--------------------------------------------------------------------|----------------------|-----------|----------|-----------------|----------------------------------|-----------|----------|-----------------|
| | Decrease | No Change | Increase | Diffusion Index | Decrease | No Change | Increase | Diffusion Index |
| What is your evaluation of the level of general business activity? | 10.3 | 67.5 | 22.2 | 11.9 | 19.5 | 47.9 | 32.7 | 13.2 |
| Company Business Indicators | | | | | | | | |
| New Orders | 15.0 | 57.0 | 28.0 | 13.0 | 17.8 | 47.1 | 34.8 | 17.0 |
| Shipments | 8.7 | 55.3 | 35.4 | 26.7 | 14.6 | 45.0 | 37.4 | 22.8 |
| Unfilled Orders | 27.1 | 59.0 | 12.2 | -14.8 | 21.4 | 62.0 | 11.8 | -9.7 |
| Delivery Time | 16.7 | 73.1 | 8.0 | -8.7 | 23.6 | 68.2 | 6.7 | -16.9 |
| Inventories | 23.6 | 50.7 | 25.6 | 2.0 | 38.0 | 42.9 | 17.6 | -20.5 |
| Prices Paid | 0.0 | 52.0 | 46.2 | 46.2 | 4.1 | 40.1 | 55.1 | 51.0 |
| Prices Received | 9.1 | 69.1 | 21.8 | 12.7 | 5.3 | 61.2 | 33.4 | 28.1 |
| Number of Employees | 6.4 | 76.8 | 16.8 | 10.5 | 19.3 | 64.9 | 15.7 | -3.6 |
| Average Employee Workweek | 12.8 | 72.1 | 10.2 | -2.6 | 19.5 | 53.5 | 21.8 | 2.3 |
| Capital Expenditures | — | — | — | — | 8.2 | 54.1 | 20.8 | 12.6 |

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.