

BUSINESS

Federal Reserve Bank
of Philadelphia

O U T L O O K Survey

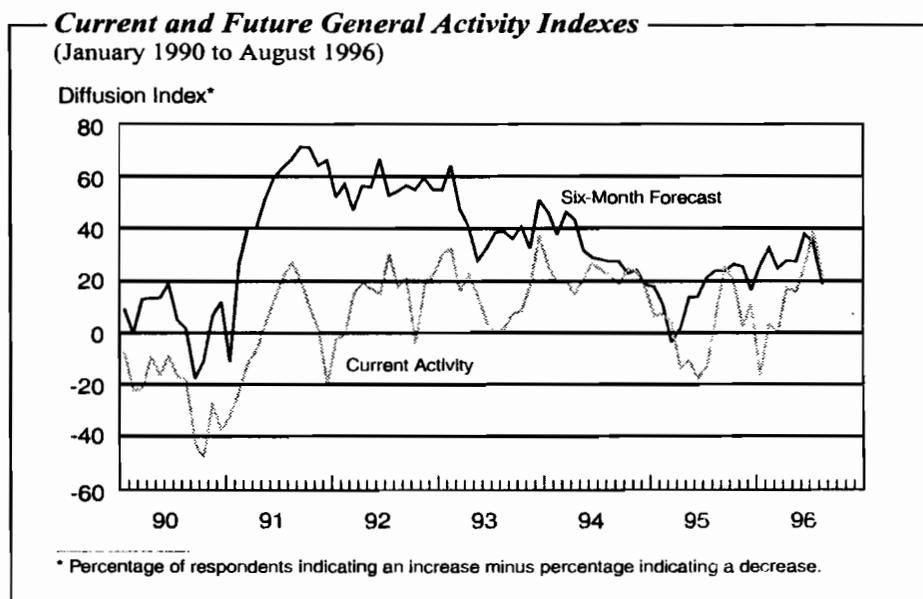
August 1996

In this month's *Business Outlook Survey*, the region's manufacturing establishments continue to report increases in activity, but smaller ones than last month. Although indexes for current general activity, new orders, and shipments declined, they remain at positive levels. Most future economic indicators also fell noticeably this month, probably reflecting the widening consensus that economic activity will slow during the second half of 1996.

Current Indicators Fall Below Three-Month Average

The survey's broadest measure of current economic conditions, the current general activity index, declined from 38.6 in July to 21.5, following sizable gains in the previous two months (see Chart). The percentage of firms reporting increases in activity (39 percent), however, continues to exceed the percentage reporting declines (17 percent). Current indicators also declined this month: the current new orders index declined from 31.6 in July to 22.7, and the current shipments index declined sharply from 41 to 23.5. These three indexes are now below their average levels of the previous three months.

Survey responses regarding unfilled orders and delivery times are near those reported in the previous month, but inventories fell significantly. The unfilled orders index declined modestly from 5.6 to 4.2: 22 percent of firms report increases in unfilled orders, but that is nearly offset by the 17 percent reporting declines. Delivery times are



also reported steady this month: the index for current delivery times is unchanged at -0.4. Manufacturers relate a notable decline in inventories: 37 percent report declines and 11 percent report increases. The current inventories index dipped from -8.8 to -25.6.

For the fourth consecutive month, the percentage of firms reporting increases in employment (18 percent) edged out the percentage reporting declines (13 percent). Nearly 68 percent report no change in employment during the month. The average workweek index remains positive, but it edged lower, from 7.2 to 6.3.

Manufacturing Prices Show Little Upward Pressure

Following the general pattern of the broad current indicators, the survey's

current price indicators also declined this month. When asked how their input prices compared with those of the previous month, more than 76 percent of the manufacturers reported no change and the percentage reporting higher input prices (14 percent) was only slightly more than the percentage reporting declines (10 percent). The current prices paid diffusion index declined from 12.8 to 4.6, its lowest reading in five months. Prices of manufactured goods are also reported near steady: the current prices received

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diffusion index declined modestly from -0.4 to -3.0. This index has remained negative for 10 consecutive months.

Six-Month Forecasts Dampened

This month, most indicators fell to their lowest levels of the year. The future general activity diffusion index declined noticeably from 34.7 to 18.7, its lowest reading since the end of last year (see Chart). Similar declines in expectations are reflected in the other broad indicators, namely future shipments and new orders. The index for future new orders fell from 36.4 to 19.9, and the index for future shipments fell from 35.7 to 17.1.

On balance, firms expect slowing of growth to reduce the level of unfilled

orders over the next six months, and delivery times are expected to be shorter. Firms also expect reductions in inventories over the next six months.

Diminished expectations for manufacturing activity over the next six months is also seen in firms' responses regarding employment plans. For the first time in five months the percentage of firms expecting reductions in employment (23 percent) exceeds the percentage expecting increases (19 percent). The future employment diffusion index declined from 15.4 to -4.1, the lowest reading since January. Average work hours are expected to remain near current levels — the percentage of firms expecting an increase in hours (19

percent) matches the percentage expecting a decrease.

Summary

Although most current indicators increased in the previous two months, they declined notably this month. Firms reporting increases in activity continue to outnumber those reporting declines by more than 2:1, but the decline in survey indexes this month suggests some slowing of growth. Perhaps most notably, the survey's future indicators paralleled the decline in current indicators this month, which is consistent with the general expectation that growth in the economy will be slower during the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns August 1996

	August vs. July				Six Months from Now vs. August			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	17.1	40.0	38.6	21.5	24.7	30.7	43.3	18.7
Company Business Indicators								
New Orders	17.2	43.0	39.8	22.7	22.3	33.7	42.2	19.9
Shipments	18.6	35.6	42.1	23.5	23.8	33.5	40.9	17.1
Unfilled Orders	17.8	59.5	22.0	4.2	27.6	54.2	17.2	-10.4
Delivery Time	15.2	68.2	14.8	-0.4	20.6	67.5	9.7	-10.9
Inventories	36.6	49.5	11.0	-25.6	41.0	43.7	13.8	-27.2
Prices Paid	9.5	76.3	14.1	4.6	3.7	61.8	32.6	28.9
Prices Received	14.5	73.9	11.5	-3.0	13.1	60.6	26.1	13.1
Number of Employees	13.3	67.9	18.3	5.1	22.8	56.4	18.8	-4.1
Average Employee Workweek	16.4	59.4	22.8	6.3	19.0	62.4	18.6	-0.3
Capital Expenditures	—	—	—	—	16.7	40.8	26.9	10.2

- 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.