

B. Turnbull

BUSINESS OUTLOOK



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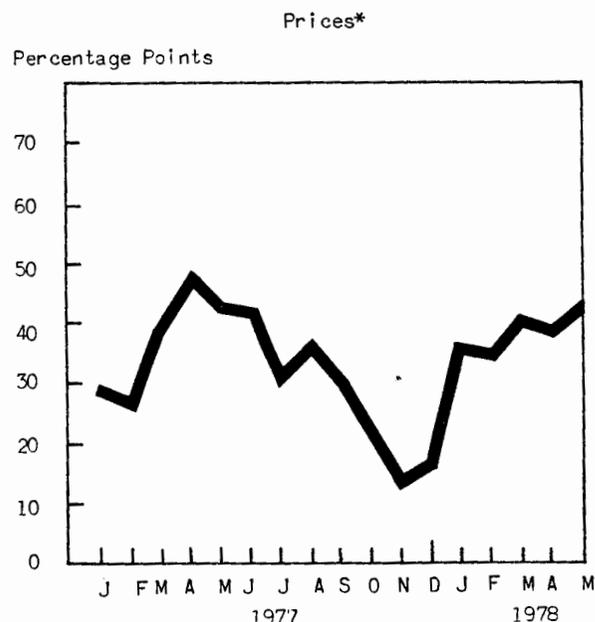
SURVEY. For: Federal Reserve Bank
May 1978

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This Summary of Returns reports on the May responses to the Business Outlook Survey conducted by the Federal Reserve Bank of Philadelphia. Its purpose is to provide an insight into Third District business conditions. The survey sample polls manufacturing firms with 500 or more employees.

Area executives responding to this month's Business Outlook Survey say business is improving for the third straight month. Forty-two percent of responding manufacturers indicate a pickup in the general level of economic activity in May--the highest this proportion has been in a year. In terms of specific indicators, new orders and shipments are reported to be higher, while inventories are down substantially. Consequently, the employment situation has improved for Delaware Valley workers. Payrolls are larger at one-fifth of the sampled firms this month, with a slight lengthening of the average workweek reported as well.

For the longer term, manufacturers are no more optimistic than they've been for the last few months. While new orders and shipments are projected to increase between now and November, such expectations are



*Index is an average of the percentage of respondents reporting higher input prices minus the percentage reporting lower prices, and the corresponding figure for finished goods prices.

less widespread than they have been at any time since the trough of the last recession. Nevertheless, responding manufacturers continue to foresee improvement on the job scene, with larger work forces projected at about one-fourth of the sampled firms.

Responses to this month's Survey show an uptick in the forecast for inflation. At the beginning of the year, 78 percent of the Survey participants said they expected the prices they pay for raw materials to go up within six months, while only 5 percent anticipated price cuts, yielding a "net increase" of 73 percent. The corresponding figure for prices of finished products was 54 percent. In May, however, these proportions are 87 and 68 percent respectively, indicating that price boosts are expected to become more prevalent in the second half of this year. This change in expectations may result, in part, from current movements in prices. As the chart shows, price increases in 1977 tapered off from May through November. Near the end of the year though, this movement was reversed, and further increases have been noted since.

In summary, industrial activity continues to expand in May. For the longer term, manufacturers still foresee continued gains, but are increasingly less bullish. Inflation has been worsening in the industrial sector over the past six months, and is expected to continue to worsen throughout 1978.

BUSINESS OUTLOOK SURVEY

SUMMARY OF RETURNS
MAY 1978

INDICATOR	May vs. April			Six Months from Now vs. May		
	Decrease	No Change	Increase	Decrease	No Change	Increase
GENERAL BUSINESS CONDITIONS						
What is your evaluation of the level of general business activity?	5.3	52.6	42.1	7.9	47.4	42.1
COMPANY BUSINESS INDICATORS						
New Orders	10.5	55.3	34.2	18.4	39.5	42.1
Shipments	5.3	52.6	42.1	15.8	42.1	39.5
Unfilled Orders	13.2	63.2	21.1	15.8	60.5	21.1
Delivery Time	0.0	86.8	10.5	10.5	76.3	10.5
Inventories	36.8	47.4	15.8	28.9	39.5	31.6
Prices Paid	0.0	50.0	50.0	0.0	13.2	86.8
Prices Received	0.0	63.2	34.2	0.0	28.9	68.4
Number of Employees	0.0	78.9	21.1	5.3	68.4	26.3
Average Employee Workweek	2.6	81.6	15.8	7.9	81.6	10.5
Capital Expenditures				0.0	65.8	26.3

Note: Items may not add to 100 per cent because of omission by respondents.