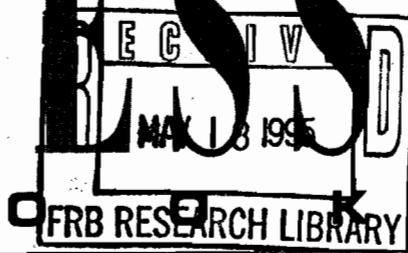


# BUSINESS

Federal Reserve Bank  
of Philadelphia

O U T L O O K



## Survey

May 1995

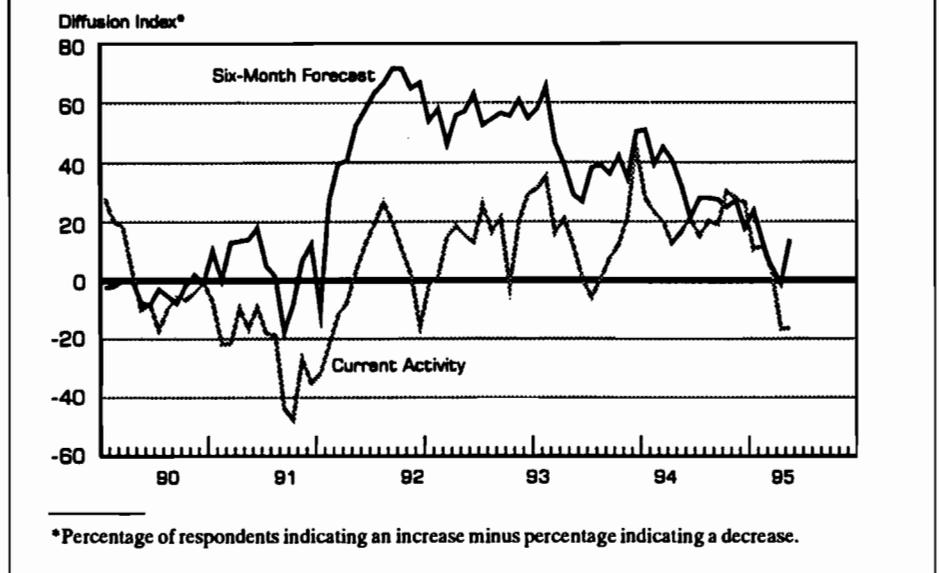
The region's manufacturers report declines in overall activity this month. For the second consecutive month, the percentage of firms reporting declines in activity is larger than the percentage reporting increases. The manufacturers also report declines in employment and the average workweek again this month. While current activity has reportedly slumped, the survey's future indicators improved somewhat this month. A sizable share of firms, however, do not expect improvement over the next six months and are not planning employment increases.

### CURRENT INDICATORS REGISTER LITTLE CHANGE FROM LAST MONTH

The survey's current general activity diffusion index increased only slightly, from -16.7 in April to -16.4 this month (see Chart). Current indicators for both shipments and new orders also remained negative this month. The current new orders diffusion index declined from -12.1 to -16.9, while the current shipments index was virtually unchanged and now stands at -2.4. Continued negative readings for both unfilled orders and delivery times also indicate weaker activity.

Furthermore, survey responses show a decline in demand for labor this month. The percentage of firms reporting declines in employment (23 percent) is larger than the percentage reporting increases (5 per-

**Current and Future Activity Indexes**  
(January 1990 to May 1995)



cent). The current employment diffusion index, which remained positive throughout 1994, has fallen below zero the past two months. Average workhours are reported lower this month; the current average workweek index declined sharply, from -9 in April to -23 this month.

### PRICE MEASURES SHOW CONTINUED MODERATION

Paralleling the decline in current activity indicators over the past several months, the survey's current manufacturing price diffusion indexes have also been declining. Many respondents report higher prices for raw materials and other purchased inputs (33 percent); only 5 percent

report lower prices. The overall prices paid index declined slightly, from 31.7 to 28.3, the fourth consecutive monthly decline in the index. Eighteen percent of the manufacturers report that prices received for their own produced goods are higher; 13 percent report lower prices. The prices received index, now at 5.7, is only slightly higher than the 2.8 reading in April.

Reported declines in activity may be influencing firms' expectations of future

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price increases. Although 41 percent of respondents expect increases in prices for raw materials over the next six months and 26 percent expect higher prices for their own manufactured goods, these percentages have edged down in recent months. Both the future prices paid and future prices received indexes have now fallen for three consecutive months.

#### FORECASTS SUGGEST NO FURTHER DECLINES ARE EXPECTED

Measures of manufacturing firms' expectations for the next six months indicate that the recent declines in business activity are unlikely to worsen. Almost 37 percent of the polled firms expect increases in activ-

ity over the next six months, compared with 23 percent expecting declines. The future general activity index rebounded from a reading of -1.2 in April to 13.8 (see Chart). Future indicators for both new orders and shipments remain slightly positive, suggesting that while no further downturn is expected, overall growth may be slow over the next six months.

Forecasts for future employment suggest a degree of caution regarding the near future. While 21 percent of the polled businesses expect to hire additional workers over the next six months, 27 percent expect to reduce the number of workers. The future employment diffusion index, now at -5.6, has been negative for four

consecutive months, after remaining positive for most of 1994. The future average workweek index also suggests that, on balance, employers are planning reduced workhours over the next six months.

#### SUMMARY

Led by recent declines in new orders, most of the survey's current indicators suggest overall declines in the region's manufacturing sector this month. While the survey's current indicators suggest weakening activity, they also show some moderation of price increases. Although most future indicators improved this month, firms remain cautious about their expectations for employment increases.

#### BUSINESS OUTLOOK SURVEY

Summary of Returns  
May 1995

	May vs. April				Six Months from Now vs. May			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	28.6	58.2	12.3	-16.4	23.0	39.7	36.8	13.8
<b>Company Business Indicators</b>								
New Orders	33.1	49.5	16.2	-16.9	21.8	41.5	31.3	9.6
Shipments	22.6	57.0	20.2	-2.4	25.1	39.4	31.1	6.1
Unfilled Orders	32.9	53.8	11.8	-21.1	23.3	49.4	23.7	0.4
Delivery Time	25.2	67.9	5.6	-19.6	32.9	54.6	10.6	-22.3
Inventories	40.3	39.3	19.6	-20.7	47.1	27.4	25.5	-21.6
Prices Paid	5.0	61.7	33.3	28.3	8.5	49.5	41.3	32.8
Prices Received	12.6	69.0	18.3	5.7	14.5	58.5	26.4	11.9
Number of Employees	22.7	72.0	5.3	-17.4	26.9	51.2	21.4	-5.6
Average Employee Workweek	27.5	63.9	4.6	-23.0	31.3	47.6	19.5	-11.8
Capital Expenditures	—	—	—	—	16.6	49.5	23.5	6.9

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.