

BUSINESS

Federal Reserve Bank
of Philadelphia

O U T L O O K Survey

June 1995

For the third consecutive month, the region's manufacturers report declines in overall business activity. The manufacturers polled indicate declines in new orders and shipments, as well as reductions in employment. On the price front, the manufacturers report continued moderation in prices for inputs but virtually steady prices for their own manufactured goods this month. Over the next six months, those surveyed expect only modest improvement in overall business conditions for manufacturing.

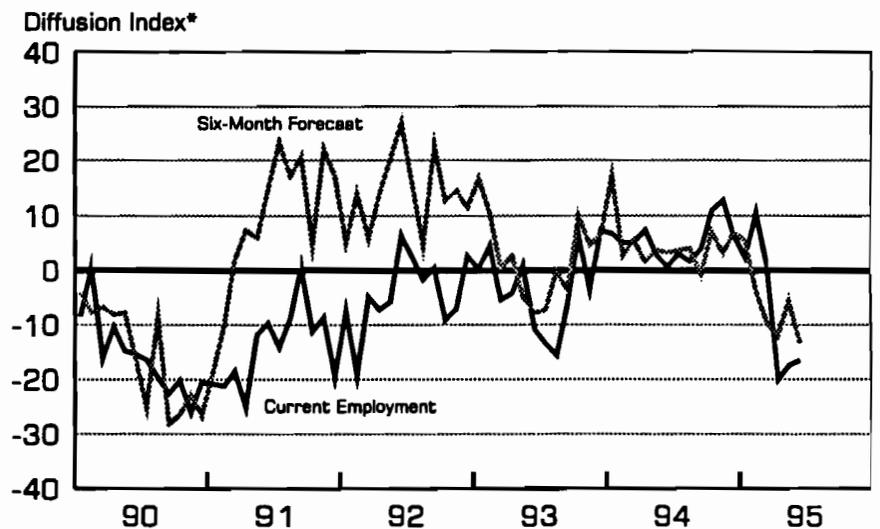
Most Current Indicators Remain Negative

The survey's current indicators suggest another month of deterioration for the region's large manufacturers. The survey's broadest measure of manufacturing activity, the current general activity diffusion index, declined from -16.4 to -24.3 this month. The indicator has now remained negative for three consecutive months. Nearly 35 percent of the manufacturers report declines in activity this month, compared with 10 percent reporting increases.

Other current diffusion indexes paralleled the decline in the overall general activity index this month. For the third consecutive month, the number of firms reporting a decline in new orders (37 percent) was larger than the number reporting increases (16 percent). The current new orders index fell from -16.9 in May to -20.6, and the current shipments index declined from -2.4 to -12.3.

Current and Future Employment Indexes

(January 1990 to June 1995)



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

According to those polled, unfilled orders continued to decline and delivery times shortened, indicating weakness. Inventory levels are reported nearly steady this month, however; the current inventory index rose from -20.7 in May to -5.0 this month.

Fewer workers were employed in the region's factories this month, according to polled firms. Nearly 75 percent of the manufacturers report no change in overall employment, but those reporting fewer workers (21 percent) outnumber those reporting more (4 percent). The overall current employment diffusion index measure increased moderately, however, from -17.4 to -16.5 (see Chart). The continued negative reading for the

average workweek diffusion index suggests that average working hours declined this month.

Manufacturing Prices Continue Moderation

The survey's current price measures suggest that the prices of manufactured goods are steady this month and price increases for raw materials and other

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purchased inputs continue to moderate. About 31 percent of the firms reported higher prices paid for their inputs this month, compared with 9 percent reporting lower prices. The prices paid diffusion index registered its fifth consecutive month of decline, falling from 28.3 to 22.5. A slightly larger percentage of firms report price decreases for their own manufactured goods this month (13 percent) than report price increases (10 percent). The current prices received diffusion index declined from a reading of 5.7 in May to -3.5, the lowest since October 1993.

Manufacturers Divided Regarding Forecast for the Next Six Months

Despite reported declines in manufacturing activity in the past several months, manufacturers expect, on balance, no further deterioration in the

next six months. Firms are nearly evenly divided, however, with regard to their forecasts of manufacturing activity. Almost 32 percent of the manufacturers expect activity to increase before year-end, but close to 27 percent expect activity to decline. The overall future general activity index declined from 13.8 to 5.0 this month, suggesting that little growth is expected over the next six months. Diffusion indexes for future shipments and new orders also remain slightly above zero and well below levels recorded last year.

The manufacturers' forecasts for employment levels over the next six months also reflect weakened expectations for manufacturing growth. The percentage of firms expecting to reduce the number of workers (28 percent) exceeds the percentage planning increases (14 percent). The future employ-

ment diffusion index, now at -13.4, has remained negative in five consecutive months (see Chart). Although employment is expected to decline, manufacturers, on balance, expect no change in average workhours.

Summary

Recent declines in manufacturing are continuing, according to those polled for this month's *Business Outlook Survey*. Manufacturers in the region report continued declines in demand for their goods and have reduced the average workweek as well as the number of factory workers. Firms are divided regarding the prospects for manufacturing growth over the next six months. Although a slightly larger percentage expects activity to pick up before year-end, firms expect, on balance, further reductions in employment.

BUSINESS OUTLOOK SURVEY

Summary of Returns
June 1995

	June vs. May				Six Months from Now vs. June			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	34.6	55.0	10.3	-24.3	26.6	33.6	31.7	5.0
Company Business Indicators								
New Orders	36.5	46.1	15.9	-20.6	21.4	46.3	32.2	10.8
Shipments	29.7	50.2	17.4	-12.3	25.8	43.6	30.0	4.2
Unfilled Orders	35.2	51.6	10.0	-25.2	31.2	47.7	16.8	-14.4
Delivery Time	28.8	63.5	7.6	-21.2	16.0	68.9	13.8	-2.2
Inventories	31.3	42.1	26.3	-5.0	32.1	41.9	24.0	-8.1
Prices Paid	8.5	60.4	31.1	22.5	5.1	56.1	38.9	33.8
Prices Received	13.1	77.2	9.7	-3.5	9.3	55.2	35.3	26.1
Number of Employees	20.9	74.6	4.4	-16.5	27.7	58.1	14.3	-13.4
Average Employee Workweek	25.0	66.3	6.1	-18.9	18.0	60.9	19.3	1.2
Capital Expenditures	—	—	—	—	23.7	41.2	13.0	-10.7

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.