

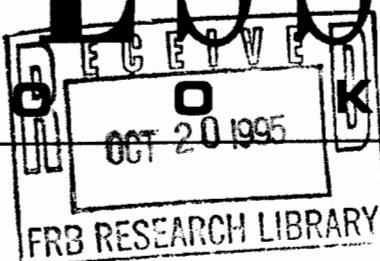
BUSINESS

O U T L

Federal Reserve Bank
of Philadelphia

Survey

October 1995



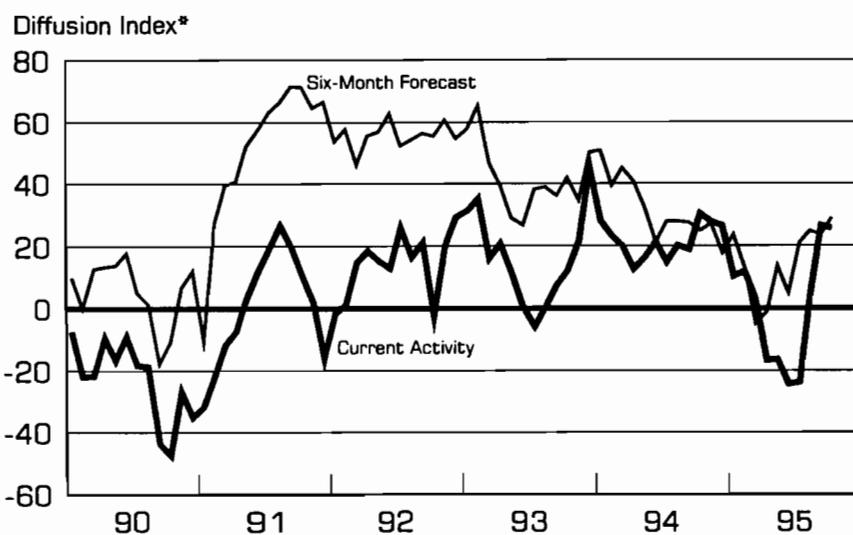
This month's *Business Outlook Survey* reports continued improvement in the region's manufacturing sector. Current survey indicators suggest an expansion of new orders and shipments this month, while manufacturing employment is reported steady. Although a larger percentage of firms report higher prices for raw materials, manufacturers' own prices are reported steady. The survey's future indicators reflect growing optimism about growth for the manufacturing sector over the next six months.

Manufacturing Recovery Continues

The survey's current general activity diffusion index remained virtually unchanged from that of the previous month, registering 25.5 in October, compared to 26.4 in September. Following a stretch of negative readings from April through July, the index has recorded positive readings over the past three months (see Chart). This month, 40 percent of the polled manufacturers report increases in activity; only 15 percent report declines. The current new orders index for October is strongly positive at 22.9, although somewhat lower than the September level of 29.1. Over 40 percent of the manufacturers report increases in new orders this month; 17 percent report declines. Similarly, the current shipments index, while still significantly positive, fell from 27.2 in September to 18.6.

For the second consecutive month the percentage of firms reporting an increase

Current and Future Activity Indexes (January 1990 to October 1995)



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

in unfilled orders (26 percent) was greater than the percentage reporting a decline (23 percent). Only a slightly higher percentage of firms reported shorter delivery times (12 percent) than reported longer delivery times (9 percent). For the first time since February, more firms reported an increase in inventories (28 percent) than reported a decline (25 percent).

The current employment diffusion index weakened this month following improvement over the preceding several months. The current employment index declined from 10.8 in September to 3.0. Only 16 percent of the polled firms reported employment gains, while 13 percent

reported losses. On balance, the average workweek is also reported near steady.

Input Prices Are Higher, But Manufacturing Prices Remain Steady

For the first time in nine months the survey's current prices paid index increased, from 13.6 to 30.0. A larger percentage of firms (31 percent) reported higher input prices this month, compared with 22 percent in September. Despite higher input

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prices, however, manufacturers report steady prices for their own manufactured goods. The prices received index fell slightly from 4.3 to 1.4, the lowest reading of this index in nearly two years.

Expectations for manufacturing prices over the next six months might be characterized as temperate. Despite the increase in the survey's current prices paid index this month, the future prices paid index, reflecting the manufacturers forecast for input prices over the next six months, declined to its lowest level in the 28-year history of the series. Similarly, the survey's future prices received index, which declined markedly from 31.5 to 16.6, is near its lowest level of the past several years.

Manufacturing Forecasts Brighten

Many of the survey's future economic indicators improved markedly this month,

reflecting optimism for continued improvement in manufacturing conditions over the next six months. The survey's broadest measure of future conditions, the future general activity index, rose from 23.7 to 28.9 and has been trending up over the past few months (see Chart). Rosier forecasts are evident this month in the indexes for both future new orders and shipments, which show large increases. The future new orders index increased from 18.1 to 35.0; the shipments index increased from 13.8 to 37.5. Manufacturers are now forecasting both increases in unfilled orders and longer delivery times over the next six months; future diffusion indexes for both of these variables have moved into the positive range.

Despite the improved outlook for manufacturing in general, employment forecasts remain relatively modest. The

percentage of firms that report plans to hire additional workers (19 percent) is only slightly higher than the percentage reporting plans to make cuts (15 percent). The future employment diffusion index, at 3.4, was unchanged. Those polled, however, forecast an increase in average work hours over the next six months.

Summary

Survey responses this month indicate continued improvement in the region's manufacturing sector. Despite reported increases in input prices, prices for manufactured goods remain steady and price expectations remain tempered. A general improvement in the survey's current indicators over the past two months has been accompanied by improved expectations for manufacturing activity over the next six months.

Business Outlook Survey

Summary of Returns
October 1995

	October vs. September				Six Months from Now vs. October			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	14.9	44.6	40.4	25.5	16.5	38.1	45.4	28.9
Company Business Indicators								
New Orders	17.3	42.6	40.1	22.9	15.1	34.1	50.1	35.0
Shipments	13.1	52.1	31.8	18.6	14.5	31.7	52.1	37.5
Unfilled Orders	22.7	46.9	26.0	3.4	13.9	57.0	26.0	12.1
Delivery Times	12.4	74.8	8.9	-3.5	12.4	72.2	13.4	1.0
Inventories	25.0	46.3	27.5	2.5	26.3	47.3	26.4	0.0
Prices Paid	0.5	67.5	30.5	30.0	5.0	66.9	26.3	21.3
Prices Received	4.0	89.2	5.4	1.4	6.8	69.8	23.4	16.6
Number of Employees	13.3	70.5	16.3	3.0	15.2	66.3	18.5	3.4
Average Employee Workweek	16.0	67.7	12.3	-3.7	12.2	63.2	24.6	12.4
Capital Expenditures	-	-	-	-	12.1	47.4	27.9	15.8

- Notes: (1) Items may not add to 100 percent because of omission by respondents.
 (2) All data are seasonally adjusted.
 (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease.