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# BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

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May 1996

The recovery of the region's manufacturing sector is continuing, according to results from this month's *Business Outlook Survey*. Increases in both new orders and shipments are reported again this month, and a somewhat larger percentage of firms report increases in employment. Firms generally expect a continuation of growth over the next six months.

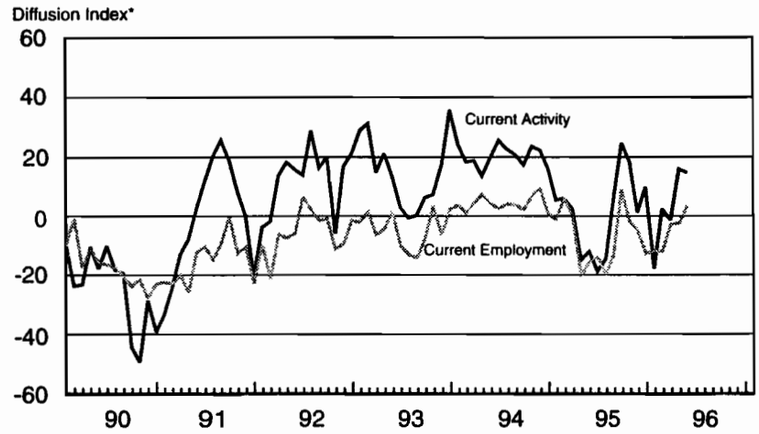
**New Orders and Shipments Are on the Rise**

Most of the survey's indicators of current manufacturing activity remained close to their positive levels in the previous month. The current general activity diffusion index declined modestly from 17.3 to 16.0 (see Chart). More than 33 percent of the manufacturers polled reported that the level of general business activity increased this month; 17 percent reported a decline. The current new orders index, however, improved this month, increasing from 13.7 to 24.8. Nearly 44 percent of the firms reported an increase in new orders, compared with 36 percent in April. The current shipments index was also strongly positive at 29.2, slightly higher than the 27.6 recorded in April.

Survey responses indicate a rise in shipments along with inventory reductions. About 37 percent of the firms reported declines in inventories this month; 24 percent reported increases. May's diffusion indexes also indicate overall declines in backlogged orders and shorter delivery times for manufactured goods, compared with the previous month.

***Current General Activity and Employment Indexes***

(January 1990 to May 1996)




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

Employment is reported unchanged this month at nearly 65 percent of the surveyed firms, but for the first time in eight months, the percentage of firms reporting increases in employment (20 percent) was higher than the percentage reporting declines (15 percent). In contrast, about 15 percent of the reporters indicated growth in employment in the previous survey. The current employment diffusion index increased to 4.9 from -1.1 in April (see Chart). For the second consecutive month the average workweek index remained positive and is virtually unchanged at 4.9.

**Prices of Manufactured Goods Are Steady**

More than 66 percent of the firms report no change from the previous month in prices paid by manufacturers for raw materials and other inputs, but the percentage of firms reporting price increases (21 percent) is larger than the percentage reporting declines (11 percent). But the current prices paid index declined slightly, from 13.7 in April to 10.2. Despite reported increases in input prices by some firms, prices received for manufactured products remain generally steady. Prices for final goods were reported steady by 78 percent of the firms polled while only 9

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percent reported price increases, and 12 percent reported declines. The overall prices received index edged up from -6.7 to -3.2, but has remained negative for seven consecutive months.

**Manufacturers Expect Continued Improvements**

Most of the survey's future indicators remained near their levels in the previous month. On balance, firms remain optimistic about continued growth over the next six months. The future general activity diffusion index was virtually unchanged, declining slightly, from 27.8 to 27.5. Nearly 47 percent of the manufacturers expect improvements in overall business during the next six months; 19 percent expect deterioration. Future indicators for orders and shipments also held steady, with almost half of the firms expecting a rise in shipments and new orders. Firms expect inventories to remain at current levels. Unfilled orders are expected, on balance, to rise, but delivery times are expected to be steady.

Despite a rise in manufacturing activity over the past two months, expectations regarding employment growth have improved only moderately. Only 22 percent forecast increases in employment, and 16 percent of the reporting firms plan reductions. The future index for the average workweek also increased in May.

**Summary**

Following reported declines earlier in the year, survey responses over the past two months suggest a broad-based recovery for the region's large manufacturers. Current indexes for both new orders and shipments, as well as the modest improvement in current employment indicators, suggest recent improvement in the region's industrial sector. Prices for manufactured goods remain generally steady, despite a higher percentage of firms reporting higher input prices over the past two months. Most future indicators reflect expectations that growth in the manufacturing sector will continue over the next six months.

***BUSINESS OUTLOOK SURVEY***

Summary of Returns
May 1996

| | 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? | 17.3 | 44.4 | 33.3 | 16.0 | 19.3 | 29.6 | 46.7 | 27.5 |
| **Company Business Indicators** | | | | | | | | |
| New Orders | 18.7 | 34.7 | 43.5 | 24.8 | 16.5 | 30.2 | 49.0 | 32.4 |
| Shipments | 14.9 | 36.5 | 44.2 | 29.2 | 20.0 | 29.5 | 47.8 | 27.8 |
| Unfilled Orders | 21.2 | 58.3 | 13.9 | -7.3 | 10.1 | 61.7 | 20.7 | 10.6 |
| Delivery Time | 19.1 | 67.0 | 9.4 | -9.7 | 14.1 | 67.7 | 14.1 | 0.1 |
| Inventories | 36.6 | 36.7 | 24.3 | -12.4 | 32.1 | 35.6 | 28.5 | -3.7 |
| Prices Paid | 10.5 | 66.1 | 20.7 | 10.2 | 10.0 | 41.2 | 41.7 | 31.7 |
| Prices Received | 12.0 | 78.0 | 8.8 | -3.2 | 8.6 | 61.4 | 27.8 | 19.2 |
| Number of Employees | 15.3 | 64.6 | 20.1 | 4.9 | 16.2 | 58.7 | 21.7 | 5.5 |
| Average Employee Workweek | 17.7 | 53.0 | 22.6 | 4.9 | 19.8 | 46.3 | 28.9 | 9.2 |
| Capital Expenditures | — | — | — | — | 9.6 | 43.5 | 32.6 | 22.9 |

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.

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