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BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

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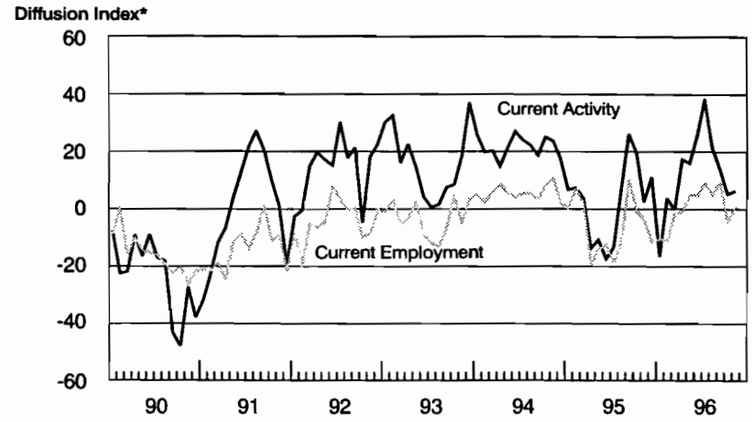
November 1996

The region's manufacturing sector is advancing slowly, according to responses to this month's *Business Outlook Survey*. Most current indicators remained near their levels of the previous month. On the other hand, some future indicators, which summarize the manufacturers' expectations for the next six months, showed noteworthy improvement this month.

Current Manufacturing Activity and Employment Indexes
(January 1990 to November 1996)



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

Most Current Indicators Hold Steady

The current general activity index, at 6.4, is virtually unchanged this month; the October reading was 5.3. While 61 percent of the firms reported no change in activity from the previous month, the percentage reporting increases (23 percent) was slightly larger than the percentage reporting declines (16 percent). The index had been on a downward trend over the past three months (see Chart). Slower manufacturing growth is evident in responses regarding new orders. The current new orders index fell from 9.9 in October to 5.8, and although it remains positive, this marks the fourth consecutive month of steady decline in the index.

Weakened manufacturing growth is also evident this month in firms' responses regarding unfilled orders and delivery times. Unfilled orders continue to decline; more firms report declines in unfilled orders (26 percent) than increases (18 percent). The unfilled orders index remained negative for the second consecutive month and virtually unchanged at -8.2. Delivery times are also reported shorter this month: 20 percent of firms report a shorter delivery time, and 11 percent report a longer one.

Manufacturing employment is unchanged at 70 percent of the firms this month. Moreover, the percentage reporting increases in employment (15 percent) is virtually the same as the percentage reporting decreases (14 percent). The current employment diffusion index, which turned negative in October, rose from -4.7 to 1.0 (see Chart). The current workweek index, however, remained negative, falling from -5.9 to -8.7.

Most Manufacturers Report Steady Prices

Survey indicators for both the prices paid for manufacturing inputs and prices received for final manufactured goods showed moderation this month. When asked about changes in input prices from the previous month, 16 percent of the firms reported price increases, and only 2 percent reported declines. The largest percentage (82 percent) reported no change in input prices this month. Moreover, the current prices paid diffusion index fell from 21.9 to 14.6.

Manufacturers characterize prices for final manufactured goods as steady. While 83 percent of the firms report no change in their prices, the percentage reporting price increases (9 percent) is

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nearly matched by the percentage reporting declines (8 percent). The current prices received index dropped from 5.4 to 1.6.

Manufacturers' Forecasts Suggest Some Improvements Ahead

When asked to provide their forecast for general economic conditions over the next six months, 36 percent expect improvement and 21 percent expect some deterioration of conditions. Even though the survey's future economic activity index edged only slightly higher, from 14.2 to 14.9, other future indicators were more positive. While 36 percent of the manufacturers expect improved business conditions over the next six months, a higher percentage expect increases in new orders (46 percent) and shipments (48 percent). The future new orders index showed a noteworthy increase this month, from 13.8 to 28.6. Similarly, the future shipments index increased from 18.5 to 29.9.

The manufacturing firms' responses also show notable improvement in their outlook for future employment conditions. Although over 54 percent of the firms indicate they will keep employment levels steady over the next six months, the percentage indicating plans for additional workers (31 percent) significantly outnumbers the percentage indicating plans for cuts (13 percent). The future employment diffusion index jumped from -2.5 to 17.6.

Summary

Steady declines in the percentage of firms reporting increases in activity and new orders in recent months suggest regional manufacturing activity has slowed. Most indicators of current manufacturing activity remained positive and near their relatively low levels of the previous month. Manufacturers report no upward pressure on their prices this month, and employment levels are reported steady. The survey's indicators of future activity, especially those for manufacturers' employment plans, showed noteworthy improvement this month, suggesting that reported slowing is not expected to be permanent.

BUSINESS OUTLOOK SURVEY

Summary of Returns
November 1996

	November vs. October				Six Months from Now vs. November			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	16.4	60.7	22.8	6.4	20.6	41.6	35.5	14.9
Company Business Indicators								
New Orders	21.8	50.2	27.6	5.8	17.3	33.7	45.8	28.6
Shipments	20.9	46.5	32.6	11.8	17.9	30.5	47.8	29.9
Unfilled Orders	26.3	53.8	18.1	-8.2	19.4	51.4	26.2	6.8
Delivery Time	20.4	66.5	10.5	-10.0	23.3	58.8	18.0	-5.3
Inventories	31.7	50.2	16.8	-14.8	30.2	45.0	22.4	-7.9
Prices Paid	1.6	82.0	16.1	14.6	2.2	62.0	34.2	32.0
Prices Received	7.7	82.8	9.3	1.6	11.3	63.4	21.3	10.0
Number of Employees	14.3	70.4	15.3	1.0	13.1	54.4	30.7	17.6
Average Employee Workweek	21.2	62.2	12.5	-8.7	14.5	62.8	21.7	7.2
Capital Expenditures	—	—	—	—	8.4	53.7	27.2	18.8

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.