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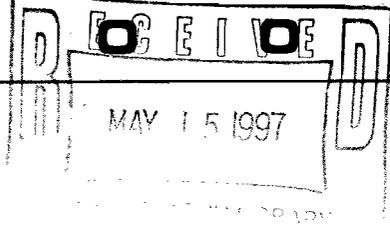
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BUSINESS

Federal Reserve Bank
of Philadelphia

OUTLOOK Survey

May 1997

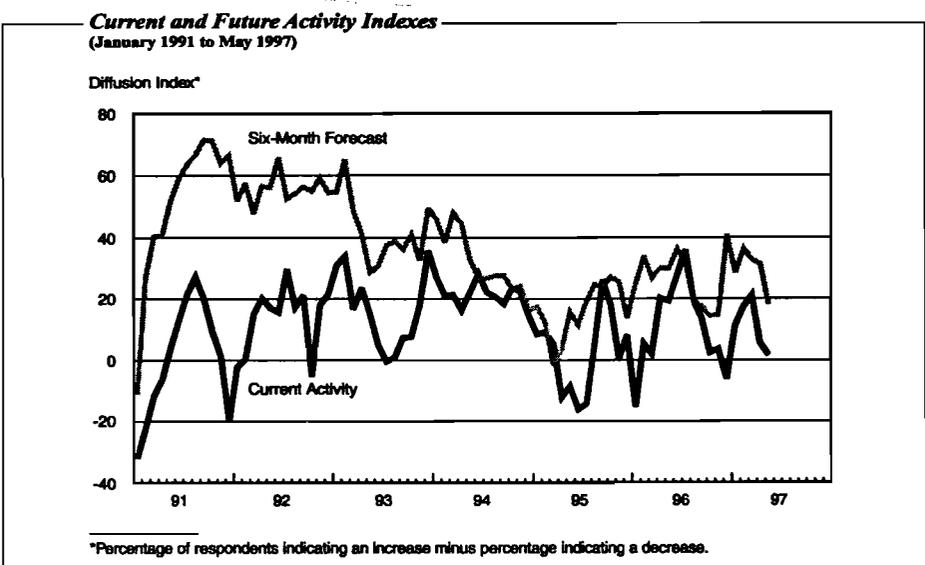


This month's *Business Outlook Survey* shows a decline in most indicators of current conditions in the region's manufacturing sector. The decline in the indicators over the past two months suggests a lessening of manufacturing growth from the more rapid pace reported in the first quarter. Despite the apparent slowing in demand, firms report higher employment growth this month. Forecasts of business activity for the next six months, however, are notably weaker than those in previous surveys.

Demand for Manufactured Goods Slows

The current economic activity index declined from 5.7 in April to 1.6, and this decrease marks the second consecutive month of decline in the index. While remaining positive, the index suggests almost steady activity levels this month. Nearly 59 percent of the manufacturing firms reported no change in activity this month, and the percentage reporting increases (21 percent) was only slightly higher than the percentage reporting decreases (19 percent). While the index increased steadily in the first quarter, the drop in the index over the past two months suggests a marked slowing in monthly growth (see Chart).

Survey responses regarding growth in shipments and new orders are also indicative of the slower growth. Shipments continue to increase according to those surveyed, with the percentage reporting increases in shipments (32 percent) greater than the percentage reporting decreases (20 percent). The



diffusion index for current shipments, however, fell from 19.0 in April to 12.1 this month. The current new orders index also declined, from 10.5 to 8.6, and is now over 10 points lower than its average reading in the first quarter. Consistent with slackening activity, indexes for both unfilled orders and delivery time remained negative and declined modestly from their levels in April.

Survey responses continue to offer evidence of improvement on the manufacturing employment front. For the fifth consecutive month, the percentage of firms reporting increases in employment (20 percent) is greater than the percentage reporting employment declines (12 percent). The current employment diffusion index also improved marginally from 4.1 to 8.7.

Average work hours are, on balance, steady, and the current workweek index, at -3.0, remains very close to zero.

Most Firms Report Steady Prices

Most surveyed firms (83 percent) report steady prices for their manufactured goods this month. A slightly higher percentage of firms report lower prices (9 percent) than report higher prices (8 percent). The index for current prices received has remained negative in three of the past four months and increased only slightly this month from -1.8 to -0.7.

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With regard to prices paid for purchased raw materials and other inputs, 73 percent of the manufacturers report no change in these prices this month. Nearly 22 percent report higher input prices and 6 percent report lower prices. The current prices paid index, however, fell somewhat, from 19.9 in April to 16.2.

Optimism Declines

The survey's future economic indicators show a dramatic decline this month, apparently reflecting the belief that demand for manufactured goods will be slowing. The future economic activity index, which reflects firms' forecast of activity over the next six months, fell from 31.3 in April to 17.9 (see Chart). Indexes for both shipments and new orders showed reductions: the future shipments index fell from 33.8 to

18.9, and the future new orders fell more dramatically, from 36.3 to 9.6.

Furthermore, firms expect unfilled orders to decline from current levels—the future unfilled orders index dropped below zero for the first time in seven months. Current delivery times are expected to be maintained: the same percentage of firms (12 percent) expect longer delivery times as expect shorter ones.

While current employment indicators have shown increasing employment levels in recent months, firms' forecasts for future employment growth have deteriorated recently. This month, slightly more firms expect increases in employment over the next six months (17 percent) than expect declines (15 percent). The future employment diffusion index declined from 9.6 to 1.9, its lowest reading since last October. On

balance, firms expect to maintain steady work hours for existing employees.

Summary

Both current and future indicators of the region's manufacturing sector deteriorated somewhat this month. Although the reporting firms indicate continued increases in shipments, the evidence suggests a slowing in growth of both new orders and shipments from the more rapid growth earlier in the year. Increasing manufacturing employment is in evidence again this month, but there is less optimism in firms' forecasts for growth over the next six months. Indeed, firms have lowered their expectations about continued growth in demand for manufactured goods and continued growth in employment.

BUSINESS OUTLOOK SURVEY

Summary of Returns
May 1997

	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?	19.1	58.5	20.7	1.6	15.6	45.8	33.5	17.9
New Orders	22.6	44.8	31.2	8.6	22.5	43.2	32.0	9.6
Shipments	20.2	46.3	32.3	12.1	19.0	38.8	38.0	18.9
Unfilled Orders	25.2	56.2	18.1	-7.1	17.9	66.6	10.7	-7.2
Delivery Time	20.4	70.7	8.9	-11.5	12.1	71.1	12.1	-0.1
Inventories	32.9	45.1	19.7	-13.1	38.2	43.5	16.4	-21.8
Prices Paid	5.5	72.8	21.7	16.2	2.0	51.6	40.7	38.6
Prices Received	8.7	83.4	7.9	-0.7	7.9	73.2	17.0	9.1
Number of Employees	11.7	67.9	20.4	8.7	15.2	64.0	17.1	1.9
Average Employee Workweek	14.3	69.2	11.4	-3.0	13.3	68.3	15.8	2.5
Capital Expenditures	—	—	—	—	14.1	39.5	31.5	17.4

- 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.