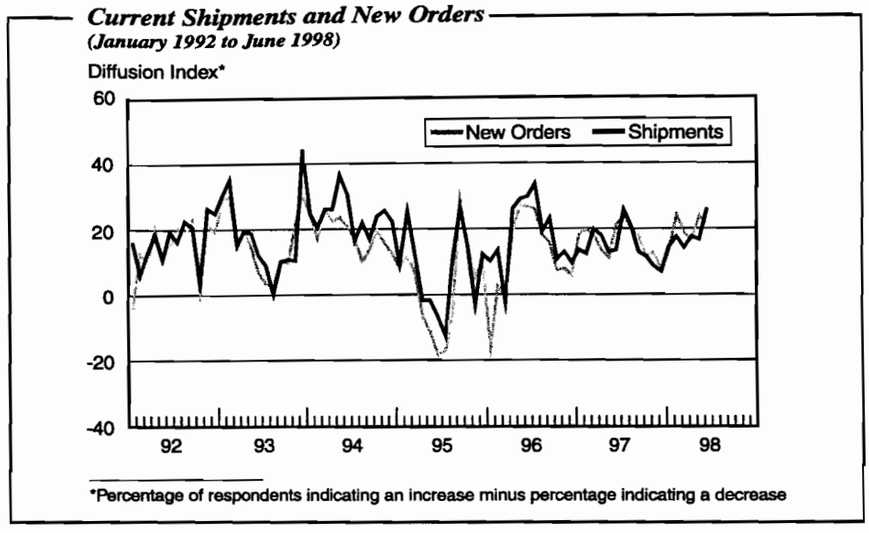
BUSINESS OUTLOOK Survey

Federal Reserve Bank of Philadelphia

June 1998

Current indicators for this month's *Business Outlook Survey* suggest an improvement in manufacturing conditions in the region. Although firms report steady growth in new orders, shipments have accelerated this month. The firms' forecasts for the next six months, however, suggest the robust growth experienced this month will not be sustained. Six-month forecasts showed a notable deterioration this month.



Current Indicators Reflect Continued Health

The survey's current general activity index increased sharply from a reading of 17.5 in May to 28.2 this month, the highest reading of the index in almost two years. Nearly 40 percent of the manufacturers reported improvement in overall business this month; only 12 percent reported deterioration. Overall improvement in business is evident in the firms' responses regarding shipments. The current shipments index increased from 16.6 in May to 27.4 in June (see Chart). Although shipments were up sharply, growth of new orders remained steady. The current new orders index declined modestly, from 23.8 to 22.6.

Consistent with robust growth, indexes for both unfilled orders and delivery times remained positive. Although a large percentage of firms (62 percent) reported no change in unfilled orders, the percentage that reported increases (22 percent) is larger than the percentage that reported decreases (15 percent). Delivery times are reported shorter at 8 percent of firms and longer at 11 percent.

Healthy growth among reporting institutions has led to slight increases in the number of workers employed this month and longer hours. About 13 percent reported decreases in employment, but 21 percent reported increases. The current employment diffusion index showed a modest increase, from 7.0 to 7.9. This index has remained positive in four of the past five months. Average work hours were reported higher at about 21 percent of firms this month, greater than the 9 percent that reported shorter hours. The current average workweek index increased notably from 2.6 to 11.8.

Price Indicators Rise Slightly

Survey responses continued to suggest that inflationary pressures in the region's manufacturing sector are subdued. The largest percentage of firms (90 percent) reported stable input prices; only 8 percent of respondents reported price increases and 2 percent reported decreases. The current prices paid

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index, which has shown a downward trend over most of this year, increased only modestly from 4.7 to 6.1, the second lowest reading since January 1997.

Prices of final manufactured goods are also reported steady. The 8 percent of firms that reported higher prices this month is nearly offset by the 7 percent that reported lower prices. The prices received index, at 1.1, is essentially unchanged from that of the previous month.

Expectations Dip Substantially

Most forecast indicators declined markedly this month. The future activity index declined from a reading of 26.7 in May to -0.5, its lowest reading in more than three years. The percentage of firms expecting increases over the next six months dropped precipitously from 47 percent in May to 28 percent. Other forecast indicators showed similar declines. The future new orders index fell from 30.8 to 8.7, and the future shipments index fell from 34.7 to 12.1. Firms also expect declines in unfilled orders and shorter delivery times over the next six months.

The deterioration in expectations is also reflected in responses regarding employment plans. Although 14 percent of firms expect increases over the next six months, for the first time in nearly two years, the percentage of firms expecting declines is higher (17 percent). The future employment index fell from 0.4 to -2.9 and has now declined for five consecutive months.

Summary

Survey indicators for June suggest that growth in the region's manufacturing sector continues at a healthy pace. Although some indicators suggest an acceleration this month — most notably for shipments — other indicators suggest continued steady growth. Firms see little pressures on input or output prices. Expectations for future growth dropped sharply this month: firms' forecasts suggest this month's growth will not be sustained over the next six months. As in recent surveys, firms are less optimistic about growth in manufacturing employment.

BUSINESS OUTLOOK SURVEY

Summary of Returns
June 1998

	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?	11.7	46.0	39.9	28.2	28.1	41.5	27.7	-0.5
Company Business Indicators								
New Orders	17.2	42.9	39.8	22.6	32.1	27.1	40.8	8.7
Shipments	13.2	44.9	40.6	27.4	27.4	33.2	39.5	12.1
Unfilled Orders	14.8	62.4	21.6	6.8	24.0	56.3	15.5	-8.5
Delivery Time	8.2	75.0	10.5	2.3	21.8	62.3	11.8	-10.0
Inventories	24.3	59.2	16.5	-7.8	27.5	47.6	24.4	-3.1
Prices Paid	2.1	89.7	8.2	6.1	3.1	58.0	37.6	34.5
Prices Received	6.9	85.0	8.1	1.1	10.5	69.2	18.0	7.5
Number of Employees	13.1	65.8	21.0	7.9	17.3	68.3	14.4	-2.9
Average Employee Workweek	9.0	69.8	20.7	11.8	22.3	65.8	11.9	-10.5
Capital Expenditures	—	—	—	—	10.2	52.2	29.6	19.4

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.

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