

# BUSINESS

Federal Reserve Bank  
of Philadelphia

## OUTLOOK Survey

August 1998

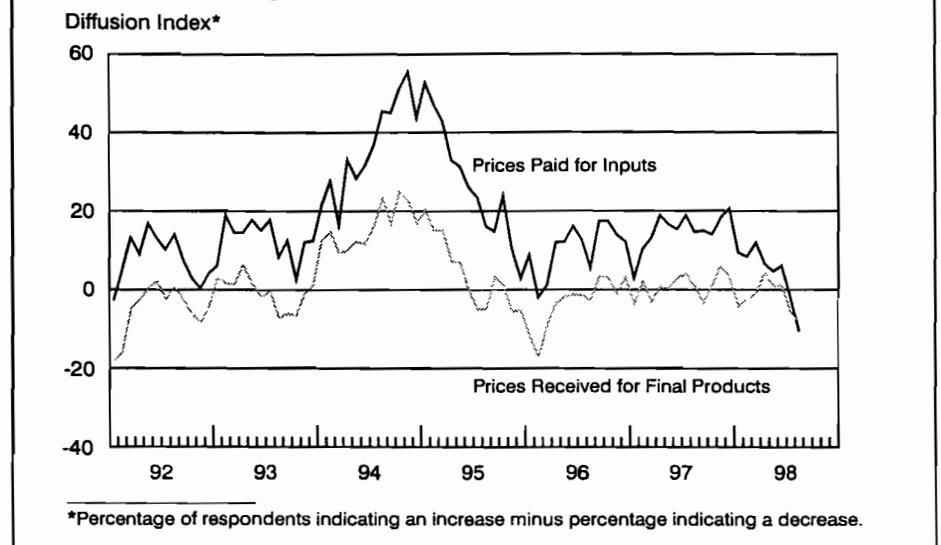
After falling considerably last month, most indicators of current manufacturing activity improved this month. Despite a reported increase in shipments and new orders this month, responses regarding prices for inputs and final manufactured goods reflect continued downward pressure. Firms' forecasts for the next six months remain subdued.

### Current Indicators Recover

Manufacturing activity improved this month, with 32 percent of the surveyed firms reporting increases and only 19 percent reporting decreases. The overall current general activity index, after falling nearly 17 points in July, increased marginally from 11.6 to 13.3. Some other indicators of current conditions registered more robust gains: the current shipments index rebounded from 7.2 to 23.2, and the current new orders index increased from 7.5 to 14.9.

A review of other indicators paints a less clear picture of the strength of manufacturing in the region. The current inventories index, for example, fell for the third consecutive month, from -11.2 to -18.6, suggesting the rise in shipments may have come partially from inventory instead of current production of manufactured goods. Unfilled orders are lower this month: the current unfilled orders index fell notably from 7.5 to -3.8, the first negative reading since the end of last year. The index for current delivery times, however, continues to suggest a lengthening of delivery times—the index remained positive but virtually unchanged from July.

**Current Prices Paid and Prices Received**  
(January 1992 to August 1998)



Nearly 22 percent of the manufacturers reported an increase in employment this month compared with 12 percent reporting declines. The current employment diffusion index improved from 4.5 to 9.9. The average workweek was reported steady.

### Price Decreases Are Evident

Price pressures continue to recede in the manufacturing sector. Firms report lower input and output prices this month. More firms report price declines (15 percent) than report increases (4 percent) for prices paid for raw materials and other inputs. Over 79 percent of firms report no change in the input prices they pay. The current prices paid diffusion index also fell this month from -2.1 to -10.6 (see Chart). The index is now at

its lowest level in the 30-year history of the survey.

Firms also report weakness in the prices for their own final manufactured goods. The percentage of firms reporting lower prices this month (15 percent) exceeds the percentage reporting higher prices (7 percent). The current prices received index declined from -5.8 to -8.2, its lowest point since March 1996 (see Chart).

Diminished price pressures have apparently had an effect on expectations for future price increases as well. Although firms expecting higher prices

To subscribe to this publication call (215) 574-6428. This publication can be found on the Internet using the World Wide Web at 'http://www.phil.frb.org'.

Economic Research Division Ten Independence Mall, Philadelphia, PA 19106-1574

outnumber those expecting lower prices over the next six months, indexes for both future prices paid and received have fallen to near their lowest readings in the history of the survey.

#### Expectations Remain Subdued

Expectations regarding an overall improvement in business conditions for the manufacturing sector have been relatively depressed over the past few months. For the third consecutive month, the percentage of firms expecting declines in activity over the next six months exceeds the percentage expecting increases. The future activity index, however, recovered somewhat from -13.1 in July to -4.4 this month. Expectations for firms' own growth in new orders and

shipments, however, are relatively more optimistic. More firms expect growth in new orders and shipments than expect declines, and associated indexes recovered from their one-month negative readings to positive ones this month.

Weak growth in demand is expected to be accompanied by a decline in unfilled orders over the next six months and shorter delivery times. Inventories are also expected to be reduced below current levels. For the first time in three months, however, firms plan growth in employment. More than 22 percent of firms expect to hire additional workers over the next six months; 15 percent expect to make cuts. The future employment diffusion index increased from -7.4 to 7.3.

#### Summary

Evidence from responses to this month's *Business Outlook Survey* is mixed regarding the state of the region's manufacturing sector. While firms report growth in new orders and shipments this month, some indicators, namely those for prices of inputs and manufactured goods, suggest a weakness in demand. Moreover, expectations for future growth in new orders and shipments remain muted compared with expectations at the beginning of the year. An improvement in expectations about future employment growth suggests that participants perceive the short run slowing in growth as temporary.

### BUSINESS OUTLOOK SURVEY

#### Summary of Returns August 1998

	August vs. July				Six Months from Now vs. August			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	18.6	47.0	32.0	13.3	30.7	39.4	26.2	-4.4
Company Business Indicators								
New Orders	23.3	38.4	38.3	14.9	23.1	36.8	37.1	13.9
Shipments	17.9	38.2	41.1	23.2	22.9	38.7	34.4	11.6
Unfilled Orders	20.8	61.0	17.0	-3.8	22.8	58.9	12.8	-10.0
Delivery Time	11.0	71.2	17.4	6.5	19.4	70.0	5.5	-13.9
Inventories	35.3	47.5	16.7	-18.6	36.9	35.2	20.4	-16.5
Prices Paid	14.5	79.3	3.9	-10.6	13.3	59.2	23.4	10.1
Prices Received	15.2	77.3	7.0	-8.2	16.7	56.6	23.0	6.3
Number of Employees	11.9	66.2	21.9	9.9	15.0	59.5	22.3	7.3
Average Employee Workweek	19.8	56.1	20.6	0.9	24.4	50.3	21.6	-2.8
Capital Expenditures	—	—	—	—	8.8	39.6	30.8	22.0

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.