

# BUSINESS

Federal Reserve Bank  
of Philadelphia

## OUTLOOK Survey

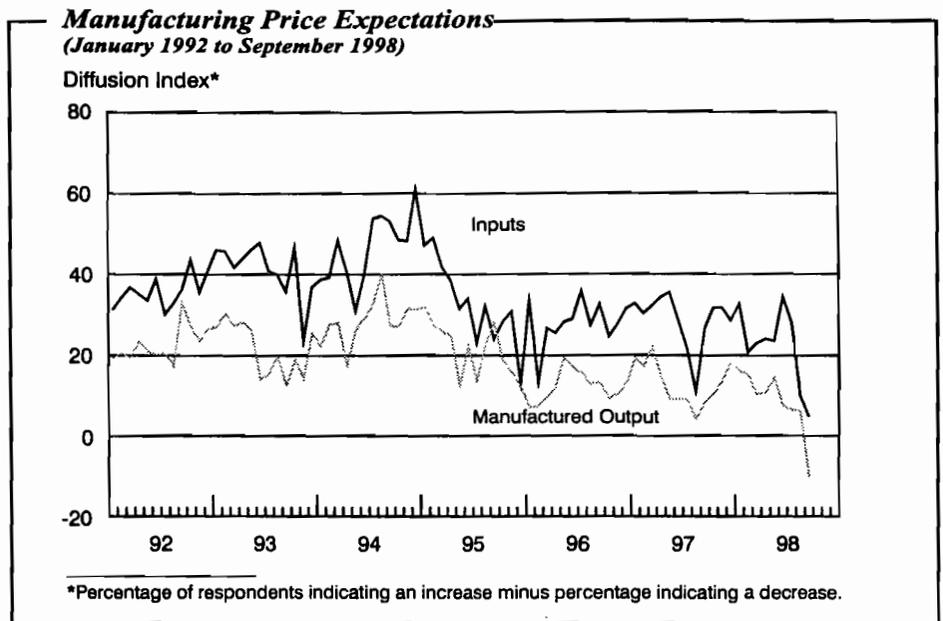
September 1998

Survey results for the September *Business Outlook Survey* suggest a marked deterioration of business conditions in regional manufacturing this month. Most of the survey's broad economic indicators of current business growth recorded large declines. Local manufacturers report continued downward pressures on both input and output prices. Manufacturers' expectations for business growth over the next six months remain depressed.

### Current Indicators Fall

For the first time in over two years, the percentage of firms reporting decreases in current activity (30 percent) is greater than the percentage reporting increases (16 percent). The current general activity index accordingly fell below zero, declining from 13.3 in August to -13.2 this month. The index is at its lowest level since January 1996.

Other indicators fell in tandem with the current activity index. The current new orders index declined from 14.9 to -5.1. Only 22 percent of firms reported increases in new orders this month, compared with more than 38 percent in the previous month. The current shipments index also fell dramatically, from 23.2 to 4.8. Firms reported both a decline in the backlog of new orders and shorter delivery times this month, results consistent with weakening in the manufacturing sector. For the second consecutive month, the percentage of firms reporting declines in unfilled orders (31 percent) exceeds the percentage reporting increases (17



percent). The current unfilled orders index fell from -3.8 to -14.5. More firms report shorter delivery times (20 percent) than report longer ones (8 percent). On balance, firms report declines in current inventories this month. The current inventories index remained negative but increased moderately from -18.6 to -15.5.

The survey's labor indicators for employment and work hours also reflect weakness this month. The current employment index fell from 9.1 to 0.6, and the average workweek index fell from 0.9 to -7.5.

### Downward Price Pressures Are Evident

Downward price pressures continue again this month. With regard to their own manufactured goods, more firms

report price declines (21 percent) than report price increases (6 percent). The prices received index, which has remained negative for three consecutive months, declined to its lowest reading since February 1996, from -8.2 to -14.4. No upward price pressures on inputs are in evidence this month. Although the current prices paid index increased from -10.6 to -2.5, the percentage of firms reporting input price declines has been greater than the percentage reporting input price increases for three consecutive months.

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Current weakness may be influencing price expectations. Both the future prices paid and prices received indexes, which represent firms' expectations for input and output prices over the next six months, are now at their lowest reading in the 30-year history of the survey (see Chart).

#### Forecasts Remain Muted

Survey responses paint a mixed picture of overall expectations for the region's manufacturing sector over the next six months. The future general activity index remained negative for the fourth consecutive month and increased only modestly from -4.4 to -3.2. However, respondents are significantly divided regarding the direction of change

over the next six months: a near equal number of firms anticipate decreases (31 percent), increases (27 percent), and no change in activity (34 percent). Firms' responses regarding growth in shipments and new orders suggest there will be some growth over the next six months—the indexes remain positive but at relatively low levels, and both fell modestly from their readings of the previous month.

The firms' employment forecasts are slightly more optimistic than the activity forecasts. Although more than 50 percent of the polled firms expect no change in employment over the next six months, 26 percent expect to hire additional workers, while 20 percent expect to reduce the number of workers.

The future employment index declined marginally this month, from 7.3 to 5.2. Firms expect reductions in the average workweek over the next six months.

#### Summary

Most survey indicators of current economic conditions in the region's manufacturing sector deteriorated this month. Weaker activity is most evident in a decline in new orders, a decline in unfilled orders, and shorter delivery times. Firms report continued downward pressure on prices of manufactured goods. Although firms are not forecasting a protracted decline in activity over the next six months, their expectations for growth remain muted.

### BUSINESS OUTLOOK SURVEY

#### Summary of Returns September 1998

	September vs. August				Six Months from Now vs. September			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	29.6	51.0	16.4	-13.2	30.6	34.3	27.4	-3.2
Company Business Indicators								
New Orders	26.9	50.3	21.8	-5.1	28.1	30.9	40.3	12.2
Shipments	24.9	44.8	29.8	4.8	30.7	32.8	35.8	5.1
Unfilled Orders	31.4	49.6	16.8	-14.5	30.1	43.0	22.8	-7.3
Delivery Time	20.1	68.6	8.1	-12.0	18.7	66.5	10.6	-8.1
Inventories	33.0	49.3	17.5	-15.5	37.9	42.3	19.0	-18.8
Prices Paid	15.8	70.9	13.3	-2.5	17.8	58.1	22.6	4.8
Prices Received	20.6	73.2	6.2	-14.4	21.7	67.0	11.3	-10.4
Number of Employees	15.3	66.3	15.8	0.6	20.4	50.5	25.5	5.2
Average Employee Workweek	20.1	65.6	12.6	-7.5	33.9	43.4	18.3	-15.5
Capital Expenditures	—	—	—	—	19.8	44.7	21.3	1.4

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.