

BUSINESS

Federal Reserve Bank
of Philadelphia

OUTLOOK Survey

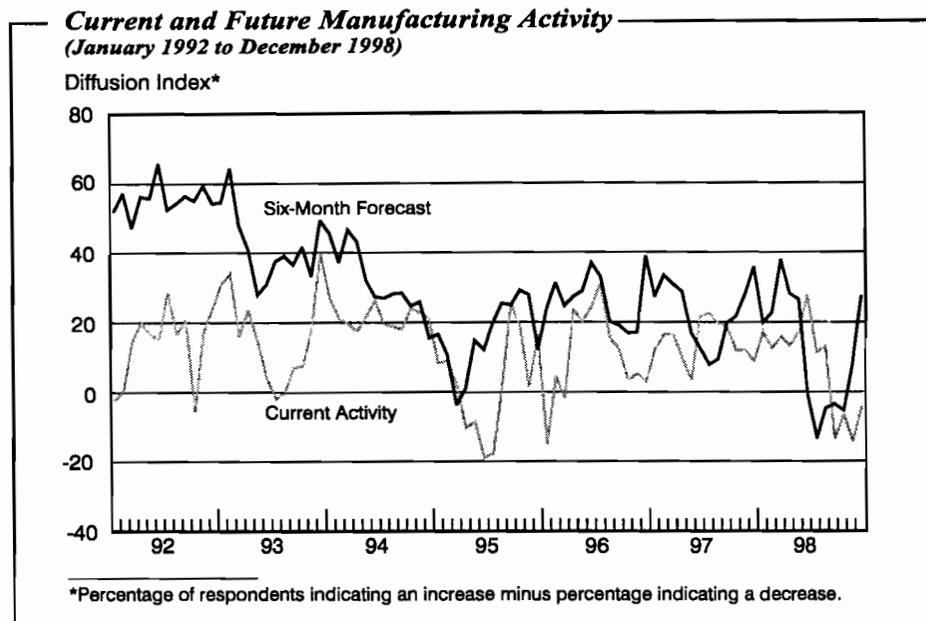
December 1998

Manufacturing activity in the region is not expanding, according to responses from this month's *Business Outlook Survey*. Most current indicators improved over their readings in recent months, but still, a larger percentage of firms reported declines in overall activity levels than reported increases. Most indicators are consistent with continued overall weakness in the sector. Survey indicators reflecting the manufacturers' forecasts for the next six months, however, recorded a notable improvement.

Manufacturing Activity Near Steady

For the fourth consecutive month, the percentage of firms reporting decreases in current activity (25 percent) was greater than the percentage reporting increases (22 percent). The current general activity index remained below zero but increased from -14.1 to -3.8 this month (see chart). Other indicators of manufacturing activity, although improved over recent readings, continue to indicate overall weakness in the region's manufacturing sector. The current new orders index increased from -13.1 to -4.0 but has also remained negative for four consecutive months. The current shipments index, which fell below zero for a single month in November, increased from -9.5 to 6.5.

Weakness is also evident in the manufacturers' responses regarding both unfilled orders and delivery times. Both current indicators remained negative, suggesting a decline in unfilled orders and shorter delivery times. The



unfilled orders index has remained negative for five consecutive months; the delivery times index has remained negative for four.

Manufacturing employment was reported higher this month at 11 percent of the firms polled, but nearly the same percentage of firms reported declines (10 percent). Nearly 79 percent of the firms polled reported no change in employment. Although the current employment index increased from -3.3 to 1.2, the index has remained relatively close to zero over the past four months. After falling markedly in November, the average work hours index increased from -22.3 to 0.3, suggesting steady hours this month.

Upward Price Pressures Not Evident

Survey responses indicate that price pressures have continued to recede in the region's manufacturing sector, as firms again reported lower input and output prices this month. For the sixth consecutive month, more firms reported price declines (18 percent) than reported price increases (10 percent) for raw materials

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and other inputs. Over 72 percent of firms reported no change in input prices. The current prices paid diffusion index increased marginally this month, from -9.2 to -8.1.

Firms also reported weakness in prices for their own final manufactured goods. The percentage of firms reporting lower prices this month (22 percent) exceeds the percentage reporting higher prices (11 percent). The current prices received index increased marginally, from -12.7 to -10.9, the sixth consecutive negative reading in the index.

Receding price pressures continue to dampen expectations for future price increases as well. Although firms expecting higher prices for final manufactured goods over the next six months (18 percent) outnumber those expecting lower prices (16 percent), indexes for both future prices paid and prices received remain near their lowest readings in the history of the survey.

Manufacturers' Forecasts Improve Markedly

Despite the lackluster performance of most current survey indicators, most future indicators increased notably this month. Suggesting an improved outlook for manufacturing over the next six months, the future general activity index increased from 8.2 to 27.7, the second consecutive increase in the index (see chart). Although 38 percent of the firms expect no change in business conditions over the next six months, 44 percent expect an improvement and 17 percent a deterioration. Other future indicators recorded substantial gains. The future new orders index increased from 17.1 to 41.1, and the future shipments index increased from 6.9 to 35.1.

An improvement in expectations is also evident in firms' responses regarding plans for employment over the next six months. The largest percentage of firms (57 percent) expect no change in

current employment over the next six months, but the percentage expecting increases (26 percent) is greater than the percentage expecting decreases (15 percent). The future employment index increased from -9.8 to 10.8, its highest reading since March.

Summary

December marks the fourth consecutive survey month in which more firms reported declines in manufacturing activity than reported increases. This month's survey indicators suggest a slight improvement over recent surveys, however. Current indicators suggest nearly steady new orders this month and a slight increase in shipments. But slackness is still evident in reported declines in unfilled orders and shorter delivery times. A change in expectations is noted in this month's survey as most future indicators showed a marked rise.

BUSINESS OUTLOOK SURVEY

Summary of Returns December 1998

	December vs. November				Six Months from Now vs. December			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	25.4	52.1	21.6	-3.8	16.5	37.5	44.2	27.7
Company Business Indicators								
New Orders	31.1	41.9	27.1	-4.0	14.3	29.1	55.5	41.1
Shipments	20.8	50.7	27.3	6.5	14.5	33.8	49.5	35.1
Unfilled Orders	29.5	55.8	13.5	-16.0	20.3	49.4	24.3	4.0
Delivery Time	20.5	74.4	4.3	-16.2	22.0	60.6	13.5	-8.5
Inventories	32.3	54.7	11.1	-21.2	39.7	40.3	20.0	-19.7
Prices Paid	18.0	72.1	9.9	-8.1	9.9	66.9	22.6	12.6
Prices Received	21.6	67.7	10.7	-10.9	15.7	64.3	18.2	2.5
Number of Employees	9.9	78.9	11.0	1.2	14.8	56.8	25.6	10.8
Average Employee Workweek	12.6	73.0	12.9	0.3	18.0	59.9	17.4	-0.6
Capital Expenditures	—	—	—	—	10.4	47.1	23.1	12.7

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.