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Philadelphia Federal Reserve Index, July 2009



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The Philadelphia Fed's business outlook index fell slightly more than expected in July following a dramatic increase the month before. Individual data items in the report were mixed, with new orders increasing but shipments declining. As with the Empire State survey yesterday, indices of expectations for business activity six months from now deteriorated but remained broadly positive. The renewed decline is small in comparison to those seen late in 2008 and early this year. In my view the index remains broadly consistent with stabilizing manufacturing conditions over the next few months.

- The total business activity index declined to -7.5 from -2.2 in June and -22.6 in May. The index had reached a low of 41.3 in February and averaged -33.5 in the first quarter of this year. The mean forecast for July's reading was -3.7, with forecasts ranging from -10.8 to +5.0. Relatively few forecasters expected the index to rise further in July following its sharp rise in June. This month 23% of respondents believed that the general level of business activity was rising, while 30.5% saw it as decreasing.
- Individual data series in the report (which do not go into the headline index) were mixed. The new orders index increased from -4.8 to -2.2, as 24% of respondents saw higher new orders this month vs. 26.7 seeing lower new orders. The unfilled orders index increased from -19.6 to -14.6. The shipments index, however, fell back to -9.5 from +2.1 in June as 19% of respondents saw higher shipments in July vs. 28% who saw lower shipments.
- The inventory index was little changed at -15.4, with 14% of firms increasing inventories while nearly 30% reduced them.
- The prices paid index rose while the prices received index fell. Here, the prices paid index rose to -3.5 (suggesting some modest continuing decline in input prices on average, with 11% of firms paying higher prices and 15% paying lower prices) but the prices received index fell to -21.5 from -16.6 as only 4% of respondents reported receiving higher prices while 25% reported receiving lower prices. As with price data from other recent reports, this points to potential margin pressures.
- The two employment series in the report were mixed. The series covering the number of employees fell to -25 from -22, with only 5% of respondents doing any net hiring in July, but the average workweek series increased from -27 to -15.5. About 9% of respondents said they were increasing the average workweek while 24% were reducing it.
- The index of firms' expectations of business conditions six months from now declined to 51.9 from 60. The expectations indexes for new orders, shipments and unfilled orders all declined while the number of employees index was stable.

Source: Philadelphia Federal Reserve

Particularly since it followed a very large increase the month before, the decline in this month's Philadelphia index should not be viewed as alarming. On balance it points to a continued slow recovery in manufacturing in the region, which should continue in coming months as inventory declines moderate. ■

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