

Economic Indicators

The interest and importance of economic indicators are increasing due to the U.S. FED's interest rate hike this year. Accordingly, the KIS Research Center aims to help investors understand by preparing reports that introduce major global economic indicators, starting with the U.S market. We hope that this report will be helpful in understanding global economic indicators centered on the U.S.

The Philadelphia Federal index overview

The Philadelphia Federal Index (or Philly Fed Survey) is a regional federal-reserve-bank index measuring changes in business growth. It is also known as the "Manufacturing Business Outlook Survey".

Participants report the direction of change in overall business activity and in the various measures of activity at their plants: employment, working hours, new and unfilled orders, shipments, inventories, delivery times, prices paid, and prices received.

Understanding of the Philly Fed index

Manufacturing Business Outlook Survey includes: employment, new order, the price paid, and business condition indexes.

The index signals expansion when it is above zero and contraction when below zero.

How is the Philadelphia Manufacturing index used?

It is considered as a useful indicator of economic and business activity across the nation. Because manufacturing is central to overall economic activity, the health of the sector is an indicator of the health of the overall economy, and the survey could provide early indications of the problems in the regional sector and consequently in the entire U.S. economy.

Why should we check it at this time?

The Philly Fed survey gives a detailed look at the manufacturing sector, how busy it is and where things are headed. Since manufacturing is a major sector of the economy, the Philly Fed report has a big influence on market behavior. Some of the Philly Fed sub-indexes also provide insight on commodity prices and other clues on inflation. That is the reason why Fed is watching this indicator to find the best monetary policy.

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I. The Philadelphia Federal index overview

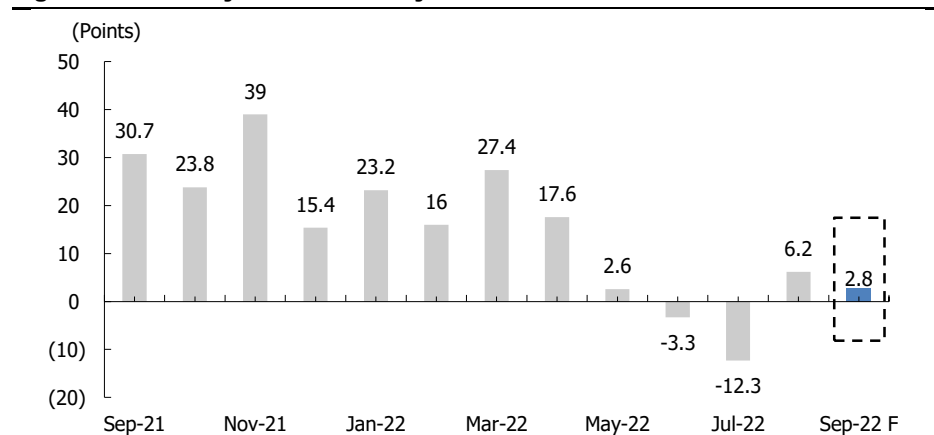
DEFINITION

- The Philadelphia Federal Index (or Philly Fed Survey) is a regional federal-reserve-bank index measuring changes in business growth. It is also known as the "Manufacturing Business Outlook Survey".
- Participants report the direction of change in overall business activity and in the various measures of activity at their plants: employment, working hours, new and unfilled orders, shipments, inventories, delivery times, prices paid, and prices received.
- This survey, widely followed as an indicator of manufacturing sector trends, is correlated with the ISM manufacturing index and the index of industrial production.
- The survey has been conducted each month since May 1968.

WHY IT IS IMPORTANT

- By tracking the Phil Fed Survey, investors will know what the economic backdrop is for the various markets.
- Market participants will be keeping an eye on analysts' predictions of the data ahead of their release.
- The Philly Fed survey gives a detailed look at the manufacturing sector, how busy it is and where things are headed. Since manufacturing is a major sector of the economy, this report has a big influence on market behavior.
- Some of the Philly Fed sub-indexes also provide insight on commodity prices and other clues on inflation.

Figure 1. The Philly Fed index in 1 year



Source: Bloomberg, KIS

Note: The September-22 Philly Fed index forecast is from market consensus

II. Understanding of the Philly Fed Index

Manufacturing Business Outlook Survey include many indexes such as:

- United States Philly Fed Prices Paid:

This shows a change in the prices for goods and services paid by leading manufacturing companies in Philadelphia district. This region includes Pennsylvania, New Jersey and Delaware, i.e. states with high economic activity. So, this index often correlates with the national one.

- United States Philly Fed New Orders:

This Index indicates a change in the number of new orders received by leading manufacturers in the Philadelphia Fed region.

- United States Philly Fed Employment

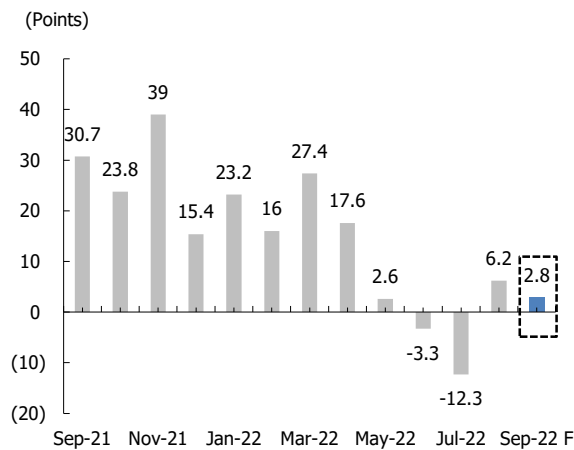
This reflects labor market conditions in the industrial sector in the Philadelphia Federal Reserve zone.

- United States Philly Fed Business Conditions

The index characterizes expectations in business conditions in the manufacturing sector in the Philadelphia Federal Reserve zone for the next six months.

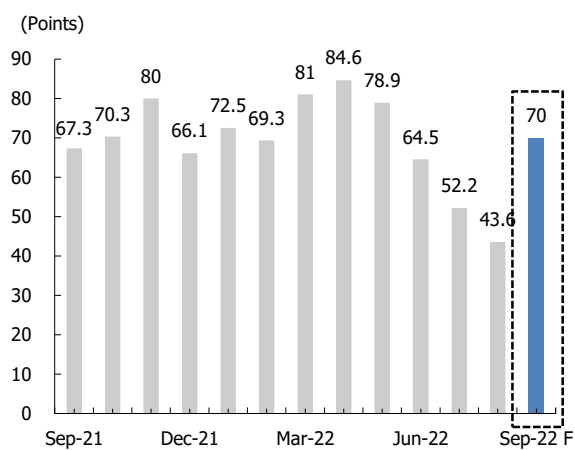
The index signals **expansion** when it is above zero and **contraction** when below zero.

Figure 2. The Philly Fed index in 1 year



Source: Bloomberg, KIS
 Note: The September-22 Philly Fed index forecast is from market consensus.

Figure 3. The Philly Fed Price paid index in 1 year

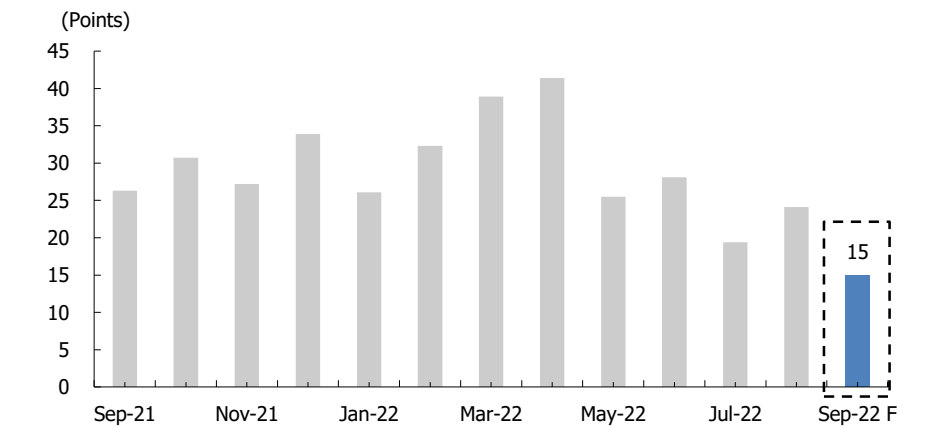


Source: Bloomberg, KIS
 Note: The September-22 Philly Fed price paid forecast is from market consensus

As can be observed that The Philadelphia Fed Manufacturing Index in the US increased to 6.2 in August of 2022 from -12.3 in July, returning to positive territory after two consecutive negative readings and above market expectations of -5. Currently, the Philly Fed manufacturing index is expected to fall down to around 2.8 points.

In addition, Philly Fed Prices Paid in the United States decreased to 43.60, declining by nearly 50% from April's high but remains roughly twice the level that had prevailed throughout 2019, the year before the COVID-19 pandemic began.

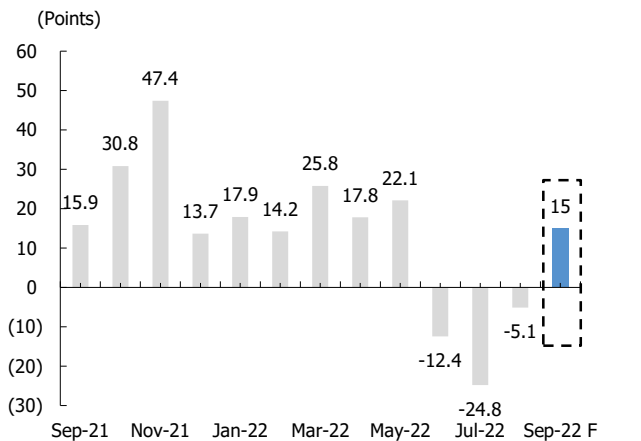
Figure 4. The Philly Fed Employment in 1 year



Source: Bloomberg, KIS
 Note: The September-22 Philly Fed index forecast is from market consensus

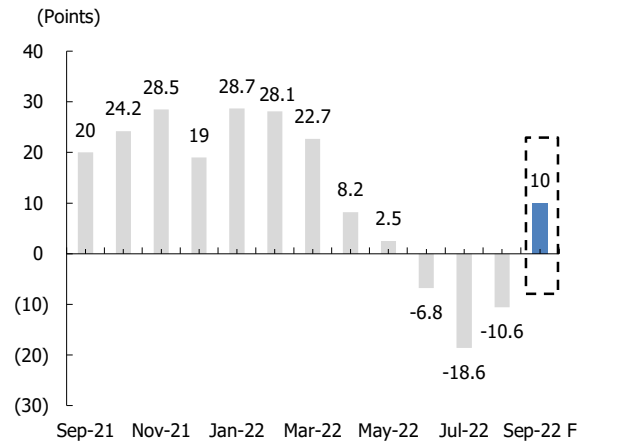
Philly Fed Employment in the United States increased to 24.10 points in August from 19.40 points, increasing by 24%. Besides, it is believed that the index will continue to reach 33 points by the end of this quarter, showing a sign of expansion in the manufacturing industry of the U.S.

Figure 4. The Philly Fed New order in 1 year



Source: Bloomberg, KIS
 Note: The September-22 Philly New Order is from market consensus.

Figure 5. The Philly Fed business condition in 1 year



Source: Bloomberg, KIS
 Note: The September-22 Philly Business condition is from market consensus.

As can be seen that the new order index and business condition of Philadelphia index witnessed a same trend. For instance, Philly Fed New Orders in the United States increased to -5.10 points in August from -24.80 points in July of 2022 while Philly Fed Business Condition also rose from -18.60 points in July to -10.60 points in August. It is believed that these two indexes will continue to recover and reach to 15 points and 10 points, respectively.

III. How is the Philadelphia Manufacturing index used?

Although the Philly Fed Manufacturing index only queries manufacturers in a small subset of the United States, it may be a useful indicator of economic and business activity across the nation. Because manufacturing is central to overall economic activity, the health of the sector is an indicator of the health of the overall economy, and the survey could provide early indications of the problems in the regional sector and consequently in the entire U.S. economy.

Though there is contrary evidence of the strength of the survey's predictive power, its publication can affect capital markets, as it is commonly quoted by news media and referred to by investment professionals and economists. Part of the value of the survey is the longevity of the available data, as the Philly Fed has been conducted continuously since May 1968, and monthly historical data is readily available

IV. Why should we check it at this time?

As can be observed that most of the survey's indicators rose significantly compared with last month. Although the general activity index turned positive, it was low, and the new orders index remained negative. Besides, the employment index increased, while the price indexes continued to decline but remained elevated. The survey's future indexes rose slightly but continue to suggest that the firms expect overall declines six months from now.

The Philly Fed survey gives a detailed look at the manufacturing sector, how busy it is and where things are headed. Since manufacturing is a major sector of the economy, the Philly Fed report has a big influence on market behavior. Some of the Philly Fed sub-indexes also provide insight on commodity prices and other clues on inflation. The bond market is highly sensitive to this report because it is released early in the month and is available before other important indicators. This indicator will be released tomorrow (U.S time: 8:30 A.M 15th September; VN time: 8:30 P.M 15th September) and we expect that it will have some impact on the FED decision next week.

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