

## Economic Research Department

After a two-year slide, the local industrial sector is showing signs of improvement, according to the May *Business Outlook Survey*. On balance, activity is picking up this month for survey participants.

### CURRENT CONDITIONS

For the first time since April 1989, more survey respondents are indicating improvement than are recording declining business (see chart). Thirty percent of the firms polled for the May survey report an increase in activity since last month while 18 percent note slower business. Conditions are described as steady by half of the survey participants.

Demand for the products made by the firms in the survey continues

to pick up. On balance, they note an increase in orders for the third month in a row, and they are stepping up shipments again this month, following an increase in April. Output is apparently keeping pace with rising demand, as area firms continue to work down order backlogs.

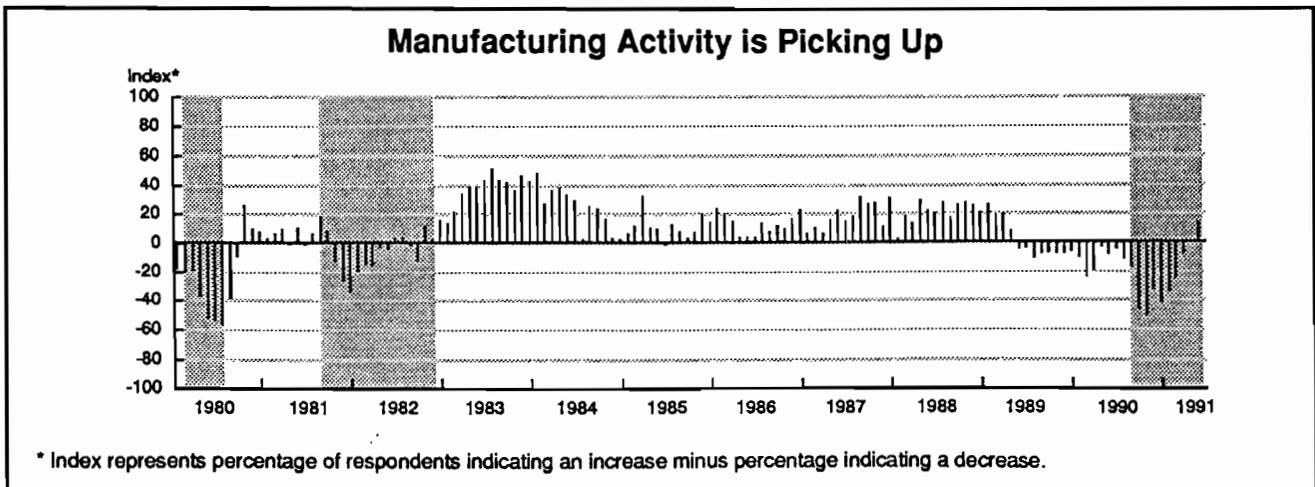
Despite the brightening production picture, the employment situation remains soft. While more than half of the firms polled this month are maintaining steady working hours and payrolls, the number making cuts slightly exceeds the number extending hours or adding workers.

### THE OUTLOOK

Optimism is growing among area manufacturers. Sixty-one per-

cent of the firms surveyed in May forecast an increase in business activity in the next six months, up from 56 percent in April and only 30 percent at the beginning of the year. Overall, managers at area plants expect improvement in orders and shipments over the next six months, and they expect order backlogs, which are slipping currently, to begin edging back up.

On the employment front, survey participants plan to increase working hours between now and November but they do not expect to expand their work forces. Capital spending plans at area industrial establishments call for stepped up outlays over the next six months. While 39 percent of the firms covered by



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the May survey say they will maintain steady spending programs for new plant and equipment, 32 percent intend to boost capital expenditures, and only 18 percent say they will cut back.

#### PRICES

Industrial prices in the region generally remain steady, according to survey participants, although a growing number of respondents are cutting prices for their products. Four-out-of-five firms polled this month say input costs are stable, and two-out-of-three indicate that they are holding the line on prices for the goods they produce; however, a quarter of the survey respondents report

that they have reduced selling prices since last month. Looking ahead, more than half of the firms responding to the May survey predict stable prices for both inputs and outputs over the next six months. Nonetheless, 39 percent expect to pay more for the goods they purchase and 25 percent intend to charge more for the products they make. Expectations of rising prices do not appear to be spreading, however; the number of survey participants anticipating upward movement in prices has been steady since the beginning of the year.

#### SUMMARY

The May survey results indicate

that manufacturing activity in the region is picking up for the first time in two years, as more firms are reporting increased business than are reporting declines. This positive net index reading may not be the beginning of a trend, but the percentage of survey participants noting improvement has increased for four consecutive months. Area firms' forecasts continue to brighten as well. A majority of survey participants foresees further improvement over the next six months; but, on balance, local companies plan to hold employment steady and they are scheduling only modest increases in capital spending.

### BUSINESS OUTLOOK SURVEY Summary of Returns May 1991

Indicator	May vs. April				Six Months from Now vs. May			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
<b>General Business Conditions</b>								
What is your evaluation of the level of general business activity?	18.1	49.5	30.1	12.1	11.4	25.4	61.2	49.8
<b>Company Business Indicators</b>								
New Orders	23.2	38.0	37.6	14.3	14.0	21.2	64.7	50.7
Shipments	25.5	39.3	33.2	7.7	16.9	14.4	64.1	47.2
Unfilled Orders	23.9	53.4	16.8	-7.0	19.0	51.1	29.9	10.9
Delivery Time	17.6	73.6	7.5	-10.1	11.6	74.3	14.1	2.5
Inventories	39.3	32.2	23.7	-15.6	41.8	36.1	21.7	-20.1
Prices Paid	9.7	79.7	8.9	-0.8	2.7	57.5	38.8	36.1
Prices Received	24.6	67.7	4.4	-20.1	10.0	64.4	24.9	14.9
Number of Employees	20.4	68.7	9.9	-10.5	28.1	41.6	30.4	2.3
Average Employee Workweek	22.0	61.7	14.3	-7.7	14.0	57.0	28.9	14.9
Capital Expenditures	—	—	—	—	17.9	38.9	31.8	14.0

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.