

## Economic Research Department

Manufacturing activity has weakened, according to the *Business Outlook Survey*. The survey's broadest measure of manufacturing activity, the diffusion index of general business activity, fell in November for the fourth straight month. Consistent with weakening activity, those polled also report downward pressure on prices of manufactured goods. Despite an apparent slackening of demand, however, survey respondents remain optimistic that business conditions will improve over the next six months.

### CURRENT CONDITIONS

The diffusion index of overall manufacturing activity fell 4.5 percent in November—indicating that more firms reported declines in activity than increases (see Chart 1). Although a majority of those polled in recent months indicate no change in overall activity, the percentage indicating decreases in activity has risen in the last two months. Twenty-four percent of those polled in November indicate a decline in general activity, compared with just 11 percent reporting declining activity in September.

The manufacturing labor market is weak. About 23 percent of employers have reduced employment levels since October while

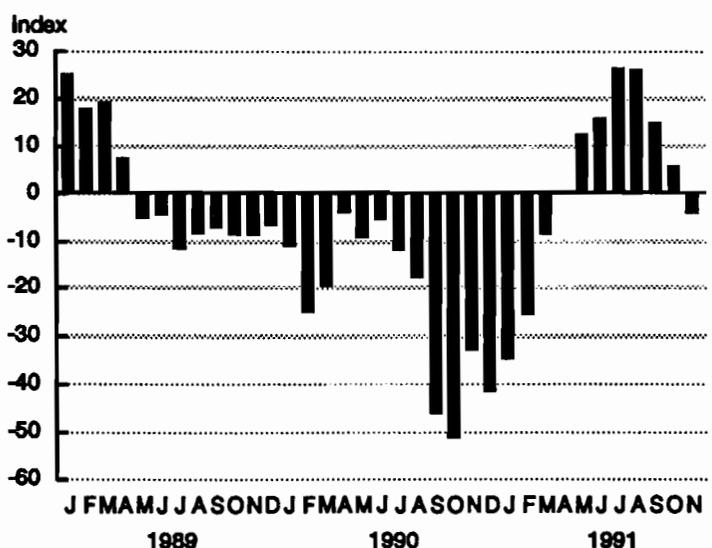
about 13 percent report increased employment. In 11 of the past 12 months, the number of reporting firms reducing employment has exceeded the number reporting increasing employment. The average workweek also fell during November, according to those surveyed.

Consistent with the weakness in manufacturing activity, the diffusion index of new orders has been declining since August. Of those

surveyed during November, 45 percent indicate no change in new orders; however, almost 29 percent report declines and only 25 percent report increases. In contrast, for August and September, the percentage reporting increasing new orders was 47 percent and 29 percent, respectively.

Other indicators suggest a weakening of manufacturing activity. Declining shipments and unfilled orders,

### Index of Current Business Activity (January 1989 to November 1991)\*



\*Percentage of respondents indicating an increase minus percentage indicating a decrease.



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as well as a reduction in the number of firms reporting falling inventories, all suggest slowing manufacturing activity.

#### PRICES

Slowing manufacturing activity is continuing to put downward pressure on manufacturing prices. Although the manufacturing output price diffusion index has been negative since November 1990, the number of reporters indicating price declines has grown in the past two months. Of those firms polled in November, 71 percent report no change in the prices of their manufactured goods. The percentage of firms reporting decreases in their prices (18 percent) outnumber those reporting increases (10 percent).

The costs of raw materials and other purchased inputs have re-

mained generally stable in recent months. Over 76 percent of respondents to the November survey indicate no input price changes during the month. About 16 percent report increases in their input costs compared with 5.0 percent reporting declines.

#### THE OUTLOOK

The region's manufacturers foresee improving conditions for the economy over the next six months. Although the overall balance of opinion is down somewhat from the previous month, a majority of respondents expect generally improved conditions by spring. More than 71 percent of those surveyed forecast an improvement in business in the next six months compared with only about 4 percent forecasting a de-

cline. Similar optimism is expressed with respect to a recovery in new orders and shipments.

Accompanying expected growth in demand for manufactured goods, 27 percent of those surveyed indicate that employment levels will be increased. In contrast, only about 4.0 percent anticipate employment below current levels.

#### SUMMARY

The November survey results suggest that the region's manufacturing sector has weakened in recent months. The underlying labor market is weak, and there is downward pressure on manufacturing output prices. Despite the apparent weakening, however, the region's manufacturers expect improving conditions by spring of next year.

### BUSINESS OUTLOOK SURVEY Summary of Returns November 1991

Indicator	November vs. October				Six Months from Now vs. November			
	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?	24.3	52.4	19.8	-4.5	4.4	21.5	71.2	66.9
<b>Company Business Indicators</b>								
New Orders	28.8	45.0	25.0	-3.8	7.4	26.9	65.8	58.4
Shipments	35.0	42.5	22.6	-12.4	6.5	28.0	64.7	58.1
Unfilled Orders	20.8	60.3	17.5	-3.3	11.7	51.6	33.7	21.9
Delivery Time	12.4	75.6	11.5	-0.9	16.1	76.7	7.2	-8.8
Inventories	25.8	57.8	16.4	-9.4	29.3	48.3	21.4	-7.9
Prices Paid	4.8	76.2	16.2	11.4	3.5	44.5	51.2	47.7
Prices Received	17.9	70.7	9.7	-8.1	2.2	63.3	34.5	32.3
Number of Employees	23.2	63.1	12.9	-10.3	4.0	65.2	27.0	23.0
Average Employee Workweek	20.8	61.6	13.7	-7.1	4.4	66.7	26.3	21.9
Capital Expenditures	—	—	—	—	9.2	51.5	24.3	15.1

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