

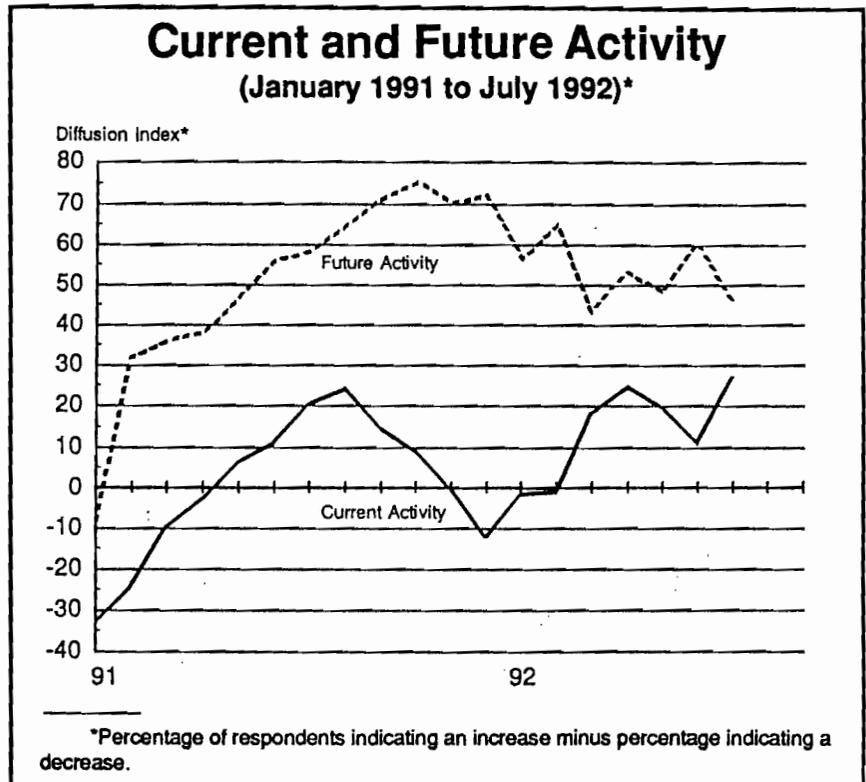
Economic Research Division

The recovery in the manufacturing sector accelerated in July according to this month's *Business Outlook Survey*. Manufacturing activity has been increasing for five consecutive months, and July's increase was the largest since April, 1988. Despite the increasing strength in the manufacturing sector, respondents indicate that manufactured goods prices are steady and manufacturing employment remains flat.

CURRENT CONDITIONS

The diffusion index for overall business jumped from a modest 10.9 percent in June to 27 in July. The strong increase in July reversed a two-month trend of slowing manufacturing growth. In July, almost 32 percent of the manufacturing firms polled indicate that activity is increasing compared with just 5 percent who report that activity is declining. The majority of firms (62 percent) report steady business.

Individual indicators also provide evidence of growth in manufacturing output. Shipments are increasing at 29 percent of the reporting firms while only 14 percent



note a decline. New orders are rising at 31 percent of the establishments compared with 10 percent reporting lower orders this month. On balance, the level of unfilled orders and delivery time are stable, suggesting that production is keeping up with demand. Inventories are marginally higher

this month.

Survey respondents indicate little change in labor market conditions. Sixty-seven percent of those polled indicate no change in the number of workers compared with the previous month. The percentage of firms increasing employment is the same as the percentage reducing em-



ployment. On balance, the average employee workweek is steady.

PRICES

Prices of manufactured goods remain nearly stable despite reported increases in shipments and new orders in recent months. About 74 percent of the firms in the survey are maintaining steady prices for their own products. The costs of raw materials and other purchased inputs are increasing at 17 percent of the reporting firms compared with declines at just 4 percent. The largest percentage (78 percent) report no change in these costs for the month.

Looking ahead six months, the majority of firms (71 percent) expect no change in prices for either their own products or the goods they purchase. However, nearly

one-quarter anticipate price increases over this period.

OUTLOOK

For the future, manufacturers remain generally optimistic about a continuation of manufacturing expansion. The diffusion index for future activity fell, however, from 60.4 in June to 45.7 this month, reflecting primarily a rise in the number of firms expecting slower activity in the next six months. About 57 percent of the firms polled for this month's survey expect the level of general business activity to increase in the next six months while nearly 12 percent expect some deterioration. Expectations regarding both new orders and shipments are in line with this overall outlook.

Firms plan to step up hiring over the next six months although expectations are not broadly optimistic. Thirty-one percent of survey participants say they will add workers while 18 percent intend to reduce employment levels.

SUMMARY

The July survey results provide evidence of an expanding manufacturing sector--the current diffusion indices for general activity, new orders and shipments all point toward continued growth. Labor market conditions are reported to be virtually unchanged and output prices generally remain stable. On balance, surveyed firms forecast a continuation of the expansion over the next six months but plan only marginal increases in employment.

BUSINESS OUTLOOK SURVEY Summary of Returns July 1992

Indicator	July vs. June				Six Months from Now vs. July			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
General Business Conditions								
What is your evaluation of the level of general business activity?	4.8	62.1	31.8	27.0	11.7	30.5	57.4	45.7
Company Business Indicators								
New Orders	10.0	59.3	30.8	20.8	16.1	23.5	60.4	44.2
Shipments	13.8	57.3	28.9	15.0	13.3	28.4	58.3	45.0
Unfilled Orders	15.4	72.3	12.3	-3.0	14.7	65.5	19.9	5.2
Delivery Time	7.4	82.0	10.6	3.1	19.2	72.1	6.8	-12.4
Inventories	19.0	49.4	31.6	12.6	18.3	55.5	26.1	7.8
Prices Paid	4.2	77.9	17.2	12.9	1.4	71.4	24.6	23.2
Prices Received	13.6	73.7	12.7	-0.9	3.9	70.7	23.3	19.4
Number of Employees	15.8	67.4	16.4	0.7	17.5	51.0	30.6	13.1
Average Employee Workweek	14.0	68.6	15.4	1.4	4.5	64.0	25.9	21.4
Capital Expenditures	—	—	—	—	12.9	45.2	27.2	14.3

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.