

Business Outlook

Survey

FEBRUARY 1993

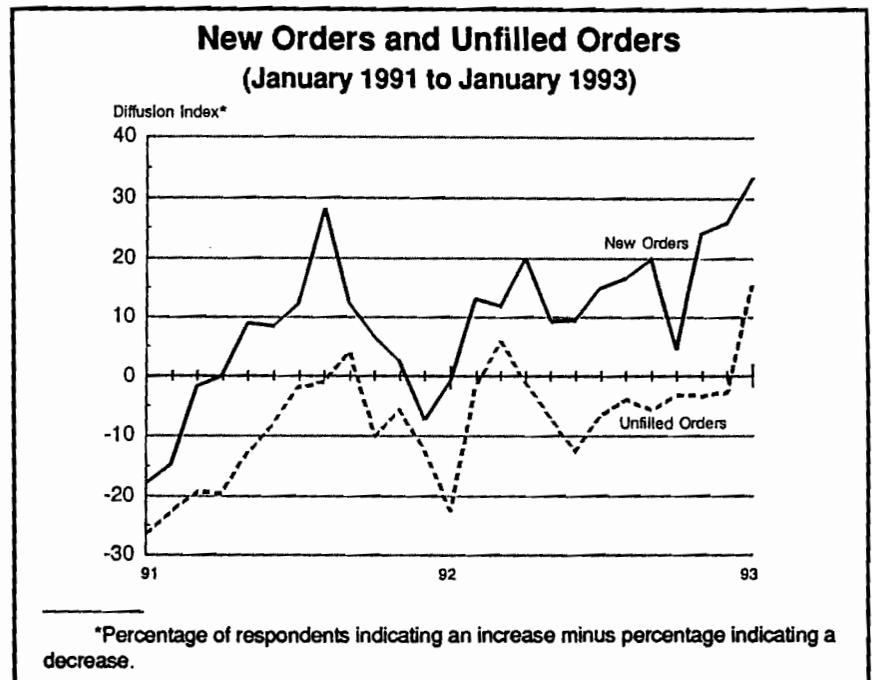
Economic Research Division

The expansion in the manufacturing sector continues, according to this month's *Business Outlook Survey*. For the third consecutive month, all of the survey's measures of economic performance improved, reaching their highest levels in more than four years. In their forecasts for the next six months, respondents indicate that growth will continue.

CURRENT CONDITIONS

The diffusion index for overall business activity increased from a revised level of 33.6 in December to 38.1 this month.¹ The index, which has increased in each of the last three months, is nearly 38 points higher than its reading in October.

All individual indicators of manufacturing performance increased this month, corroborating the evidence from the overall index of improved conditions in the manufacturing sector. About 43 percent of the respondents indicate increases in shipments this month, compared with 10 percent reporting declines. New orders also show improvement: 46 percent of the surveyed manufacturers report more new orders this month; only 13 percent report fewer. Diffusion indexes for both new orders and shipments have increased for the past three months, and the indexes are at their highest levels in more



than four years.

Those surveyed also report that current inventories are declining. The current inventories index, which declined precipitously in December, remains negative this month; almost 41 percent of the manufacturers report a drop in inventories from the previous month. That production is not keeping up with demand is also suggested by a sharp increase in the unfilled orders index, from -2.6 in December to 15.3 this month—the first positive reading of this index

since March 1992 (see chart). The diffusion index on delivery time also moved into the positive range this month, indicating an expansion in activity.

The current employment index improved marginally this month, to 5.3 from a level of -0.4 in December,

¹The revisions are the result of new seasonal factors calculated at the beginning of each calendar year. The December 1992 index was revised from 31.5 to 33.6. Historical revisions are available upon request from the Fed's publications desk 215-574-6428.



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but the majority of survey respondents (71 percent) report no change in employment levels. Firms reporting increasing employment (17 percent) outnumber those reporting decreases (12 percent). The average workweek index also showed improvement. It increased 12 points, to 11.9; this is the first positive reading registered by the index since September.

PRICES

A larger percentage of those surveyed report higher prices for their goods this month. About 11 percent of survey respondents received higher prices for their goods, compared with the previous month. Only 3 percent reported price declines, but the largest percentage (81 percent) report no change. The diffusion index for current prices received, which had remained negative for three consecutive months, increased

17 points, to a level of 8.0, in January. More firms report higher prices for their raw materials and other purchased inputs. Although 83 percent of those polled report no change in input costs, the percentage reporting increases in their prices (13 percent) exceeds the percentage reporting declines (4 percent).

OUTLOOK

In their forecasts for the next six months, most firms see business conditions continuing to improve. Nearly 70 percent of polled manufacturers expect the current level of activity to increase, and only 5 percent of the firms expect a decline. Survey responses regarding future shipments and new orders reflect similar optimism.

Surveyed firms expect a continuing increase in demand for their products, and they are evidently planning to step up production in response.

Over the next six months, almost 35 percent anticipate increases in the average workweek, and 32 percent intend to increase capital expenditures. Still, unfilled orders are expected to increase over the next six months, and delivery times will lengthen, according to those polled.

SUMMARY

Respondents to this month's *Business Outlook Survey* report another month of increasing activity; new orders and shipments show continued strength. Declining inventories and increases in unfilled orders suggest an expansion of activity in the near term. The recent growth in demand for manufactured products is expected to continue over the next six months, and manufacturing firms report plans to boost production further and increase hiring.

BUSINESS OUTLOOK SURVEY Summary of Returns January 1993

Indicator	January 1993 vs. December				Six Months from Now vs. January			
	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?	5.3	48.2	43.4	38.1	4.7	25.2	69.8	65.1
Company Business Indicators								
New Orders	12.8	39.2	46.1	33.3	1.9	31.0	67.1	65.2
Shipments	9.9	44.8	43.3	33.4	3.9	31.2	61.8	57.9
Unfilled Orders	10.4	59.7	25.7	15.3	6.8	57.4	35.8	28.9
Delivery Time	4.3	83.7	10.3	6.0	4.6	78.7	16.3	11.7
Inventories	40.5	48.7	10.8	-29.6	27.0	46.2	26.9	-0.1
Prices Paid	4.2	83.0	12.8	8.6	0.7	51.5	46.6	45.9
Prices Received	3.0	81.0	11.0	8.0	2.8	64.4	28.6	25.8
Number of Employees	11.5	70.8	16.8	5.3	7.8	63.2	28.7	20.9
Average Employee Workweek	6.2	71.2	18.0	11.9	2.1	63.4	34.5	32.4
Capital Expenditures	—	—	—	—	6.5	50.4	31.9	25.4

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