

Economic Research Department

The downward trend in regional manufacturing activity may be close to bottoming out, according to the April *Business Outlook Survey*. The balance of opinion among survey participants is that steady business this month may be a prelude to a pickup sometime in the second or third quarter of the year. While demand for industrial labor remains slack, area manufacturers indicate they will step up hiring once a recovery begins.

CURRENT CONDITIONS

The region's manufacturing sector appears to be stabilizing, as more than half of the April survey participants indicate they are operating at a steady rate compared to last month while the number reporting slower business is offset by those posting gains. As a result, the Diffusion Index of General Business Conditions, the survey's broadest measure of manufacturing activity, has moved up to 0.1 percent. This is the first time in two years that the survey has *not* indicated shrinkage in the region's industrial sector.

Most measures of industrial activity indicate improvement this month. For the first time since July of last year, area firms stepping up shipments outnumber those sending out their goods at a slower rate. And, the pickup in orders that survey participants noted in March is being repeated this month. However, the rebound in demand does not appear to be pressing capacity at

area plants; surveyed firms say that order backlogs continue to shrink, on balance, and inventories are holding steady. Managers at area plants appear to be waiting for a firm upward trend to get underway before adding to payrolls; overall, they continue to trim both the number of workers they employ and the length of the workweek.

THE OUTLOOK

Expectations continue to be positive among area manufacturers. April marks the third month in a row in which more survey respondents forecast an improvement than a decline. More than half expect business to expand over the next six months while only 13 percent anticipate further weakness. The number of survey participants forecasting deteriorating conditions has been declining since January.

In their outlook, area manufacturers generally foresee stronger demand for their products, and a majority predict increases in orders and shipments between now and October. While the number of survey respondents forecasting growth in order backlogs only marginally exceeds the number anticipating fewer unfilled orders, this month's positive bal-

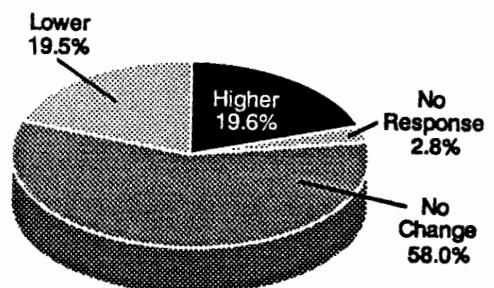
ance of opinion is the healthiest reading for this indicator since May 1988.

Growing confidence that a recovery may actually get underway in the next six months may underlie the pickup in the number of survey participants who are planning to boost employment and capital spending over that period. Thirty-five percent plan to hire more workers—the highest percentage since February 1985—and 25 percent will schedule longer working hours—the highest percentage since March 1984 (see chart on next page). Forty percent of the firms covered by the April survey are slating increased outlays for plant and equipment between now and October.

PRICES

While this month's survey indicates that manufacturing activity is firming,

Business Activity is Steady this Month



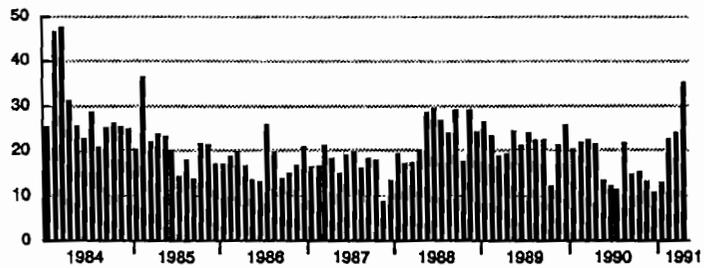
industrial prices in the region generally remain well-behaved. Over three-fourths of the firms reporting in April note that prices of both raw materials and finished products are steady. Looking ahead, expectations of rising prices have increased slightly, but forecasts of price hikes are still less prevalent among survey participants than they were during 1990. Forty-four percent of the April respondents expect the cost of the goods they purchase to go up over the next six months, and one-third plan to charge more for the goods they produce.

SUMMARY

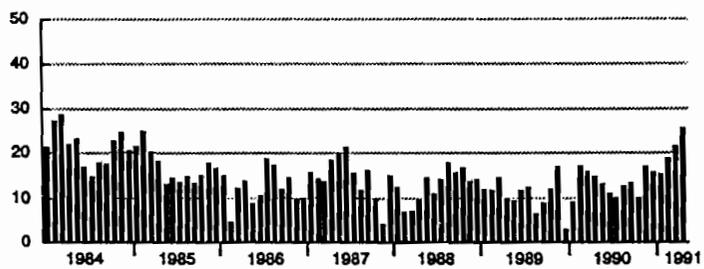
Current indicators suggest that the region's manufacturing sector may be stabilizing, and confidence appears to be growing among area firms that improvement is ahead. A majority of survey respondents expect business to pick up over the next six months, and, on balance, area companies plan to boost employment and capital spending.

Employment Prospects Brighten

The percentage of respondents with plans to hire more workers is at its highest in more than six years...



And the percentage with plans to lengthen the workweek is at its highest in more than seven years.



**BUSINESS OUTLOOK SURVEY
Summary of Returns
April 1991**

Indicator	April vs. March				Six Months from Now vs. April			
	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?	19.5	58.0	19.6	0.1	12.6	28.3	55.9	43.3
Company Business Indicators								
New Orders	18.9	49.5	26.0	7.1	8.2	35.2	54.1	45.9
Shipments	21.3	47.7	30.9	9.7	15.7	32.8	51.5	35.8
Unfilled Orders	26.6	61.4	9.5	-17.1	18.2	51.0	29.1	11.0
Delivery Time	22.8	72.3	3.5	-19.3	15.1	66.5	17.7	2.5
Inventories	27.7	44.0	28.3	0.6	25.2	52.7	22.1	-3.1
Prices Paid	7.0	76.1	16.4	9.4	4.8	50.9	44.2	39.4
Prices Received	19.4	77.4	1.4	-18.0	8.7	56.4	33.1	24.5
Number of Employees	30.6	59.5	8.4	-22.2	23.3	41.8	34.9	11.7
Average Employee Workweek	25.5	64.3	9.0	-16.5	14.6	60.0	25.4	10.7
Capital Expenditures	—	—	—	—	9.9	36.5	39.6	29.7

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.