

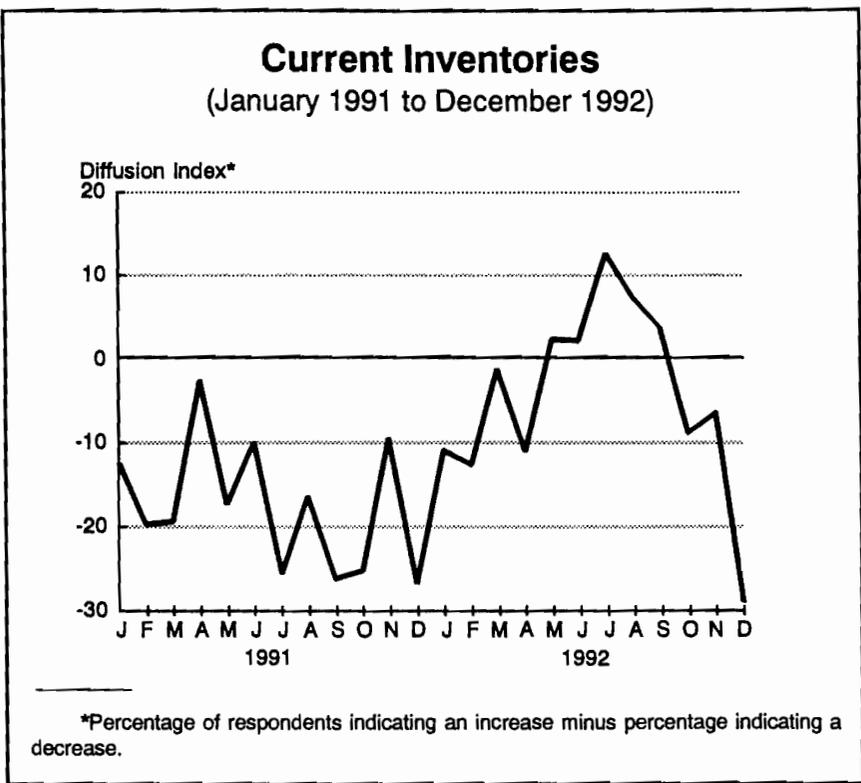
## Economic Research Division

The pace of growth in the manufacturing sector is accelerating, according to the December *Business Outlook Survey*. The diffusion index for general business activity, the Survey's broadest measure of manufacturing conditions, increased again this month and has now registered sizable increases in each of the last two months. Those surveyed report growth in both shipments and new orders, coupled with declining inventories. Also, respondents report stable employment and steady or declining prices. Although most indicators of future performance fell somewhat this month, respondents still expect improved conditions over the next six months.

### CURRENT CONDITIONS

The diffusion index for overall business activity jumped from 16.6 in November to 31.5 this month. With the exception of a negative reading in October, the index has been positive for most of this year. The index increased by 36 points since its negative reading in October. The rapid increase in the index over the last two months is strong evidence of accelerating manufacturing activity.

Individual indicators of manufacturing performance are relatively strong. Nearly a third of the respondents indicate increases in shipments this month, compared with less than one-tenth reporting declines. New or-



ders are strong as well; about 30 percent of survey participants report increases compared with only 5 percent reporting declines.

An uncommonly large decline in inventories may bode well for future activity. The current inventories diffusion index has declined precipitously over the last several months, from 4 in September to its current level of -29 (see chart). About 37 percent of sur-

veyed manufacturers report declines in inventories this month, while only 8 percent report increases.

Diffusion indexes for unfilled orders and delivery times, however, have not established discernible trends in recent months. The diffusion index for unfilled orders, which stands at -6.7 this month, has remained negative and near its current level in recent months. Similarly, the delivery time diffusion



index, which now stands at -5.4, has fluctuated within a narrow band.

The majority (80 percent) of survey respondents report no change in employment levels. The percentage of firms reporting increasing employment (11.2) narrowly outnumbers those with decreases (9.1 percent). The average workweek is holding steady this month.

#### PRICES

According to survey respondents, the acceleration in the manufacturing sector has not been accompanied by higher prices for manufactured goods. The largest percentage of reporters (74 percent) indicates no change in prices compared with the previous month. For the fourth consecutive month, the percentage of firms reporting decreases in prices (14 percent) outnumbers those firms reporting increases (8 percent).

Prices for materials and other pur-

chased inputs are also holding steady. Almost 67 percent of the manufacturers indicate no change in these costs. The percentage of firms reporting increases in input prices (19 percent) only narrowly outnumbers those seeing input price reductions (14 percent).

#### OUTLOOK

Although most future indicators representing six-month forecasts are marginally lower this month, manufacturers remain optimistic that current growth will continue. About 69 percent of the reporting firms expect activity to increase over the next six months, and a much smaller percentage (9 percent) expects declines.

Overall, managers of manufacturing firms expect improvement in orders and shipments into midyear 1993. Unfilled orders are expected to increase over current levels, and delivery times are expected to remain

steady. A significant number of plant managers are also expecting to increase employment over current levels—20 percent of those polled indicate plans to hire additional workers, compared with 9 percent planning reductions. About 22 percent of the managers indicate that the average workweek will also be increased.

#### SUMMARY

Area manufacturers report accelerating activity. The strength is reflected in growing orders and shipments and declining inventories. Managers report generally stable employment levels this month and depict little upward pressure on manufactured goods prices. Respondents expect current trends to continue, and only a small number of firms expect any deterioration in conditions in the next six months.

### BUSINESS OUTLOOK SURVEY Summary of Returns December 1992

Indicator	December vs. November				Six Months from Now vs. December			
	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?	0.0	68.5	31.5	31.5	9.2	21.6	69.3	60.1
<b>Company Business Indicators</b>								
New Orders	4.8	62.1	30.4	25.6	7.4	25.1	64.1	56.7
Shipments	7.8	53.4	32.9	25.1	3.2	32.3	64.5	61.4
Unfilled Orders	16.5	70.6	9.8	-6.7	9.6	59.4	25.5	15.9
Delivery Time	9.2	84.0	3.9	-5.4	4.7	81.6	10.1	5.4
Inventories	36.7	54.8	7.7	-29.0	22.8	51.8	22.6	-0.2
Prices Paid	14.1	66.8	19.1	5.0	5.9	45.7	45.6	39.8
Prices Received	14.2	74.2	7.8	-6.4	7.7	59.5	31.9	24.2
Number of Employees	9.1	79.7	11.2	2.1	9.0	68.1	20.3	11.3
Average Employee Workweek	12.3	73.7	12.1	-0.2	9.4	69.1	21.6	12.2
Capital Expenditures	—	—	—	—	3.6	55.4	19.9	16.3

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