

Business Survey

March 1993

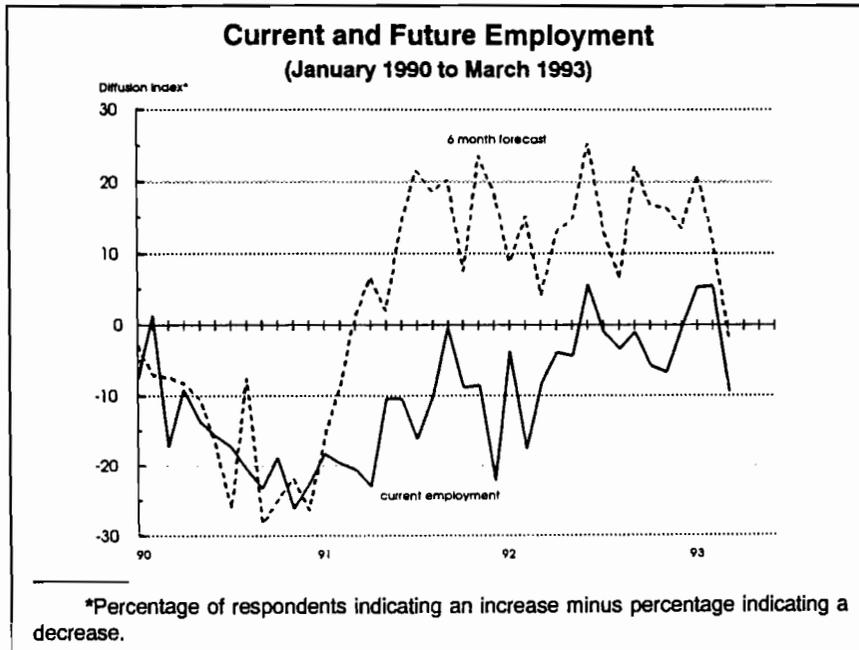
Economic Research Division

The region's manufacturing sector is continuing to grow, but at a slower rate than earlier in the year, according to this month's *Business Outlook Survey*. While most of the survey's indicators remain positive, they are lower than levels recorded in recent months. Despite growth in the manufacturing sector, employment remains weak, and respondents are not expecting employment gains over the next six months. With the exception of employment, most economic indicators for future economic activity remain positive but are also lower this month. Manufacturing prices remain relatively stable, although many of those surveyed expect prices to rise in the next six months.

CURRENT CONDITIONS

The general activity diffusion index, the survey's broadest measure of economic performance, declined from 38.8 in February to 19.6 this month. The decline in the index from the relatively high levels sustained during the past several months suggests that growth is continuing, but at a slower rate. While 50 percent of the polled manufacturers report no change in activity from the previous month, nearly 35 percent report increases and 15 percent report declines.

Changes in individual indicators of manufacturing activity are consistent with the change in the overall activity index this month. Diffusion indexes for both shipments and new orders remained positive but fell somewhat from the high levels recorded over recent months. About 38 percent of the surveyed firms indicate increases in shipments from the previous month, and 35 percent of the firms report increases in new orders.



Survey responses regarding unfilled orders and delivery times offer corroborating evidence of slowing growth. After several months at relatively high levels, the diffusion index for unfilled orders declined from a level of 20 in February to 1.4 this month. Similarly, delivery times are declining; the diffusion index for delivery times declined from a level of 10.1 in February to -5.6 this month. The declines in indexes for unfilled orders and delivery time suggest that demand no longer exceeds production.

After several months of improvement, this month's current employment index shows some deterioration (see Chart). The index, after remaining positive for two months, has now dipped below zero.

Although nearly 74 percent of the firms responding to the survey indicate no change in employment from the previous month, the percentage of firms making cuts to their payrolls (18 percent) outnumber those making additions (8 percent).

PRICES

Although a significant number of surveyed firms have reported increases in their input prices since the beginning of the year, manufactured goods prices remain, on balance, stable. The diffusion index for prices received by manufacturers stands at 4.3 and is virtually unchanged from the previous month. About 84 percent of the firms surveyed report



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prices are unchanged; about 10 percent report higher prices and 6 percent report lower prices.

The diffusion index for purchased inputs, which increased significantly last month, declined from 25.2 in February to 15.1 this month. About 70 percent of the polled firms indicate no change in their prices for raw materials and other purchased inputs, and 22 percent report higher prices. Almost 45 percent expect further price increases for inputs over the next six months.

Firms expect their own prices to increase over the next six months. The diffusion index for future prices received, which now stands at 30.2, remains near its relatively high level of the previous month. Of those polled, 34 percent expect price increases for their manufactured goods in the next six months; 4 percent expect price declines.

OUTLOOK

This month's manufacturing survey results show signs of declining optimism about the continuation of recent improvements in business conditions. The diffusion index for economic activity over the next six months declined from a very high

reading of 70.7 in February to 46 this month. The majority of manufacturing firms (56 percent) expect further increases in activity over the next six months. Although 33 percent of those polled expect no change in activity, 10 percent expect deterioration in their business.

Many of the other indicators of future economic activity remained positive but edged lower this month. The future shipments diffusion index, which was recorded at 57.8 in February, fell to 39.9 this month. The new orders index also edged lower. On the other hand, more than half of the manufacturers expect increases in new orders and shipments over the next six months (59 percent and 53 percent, respectively). Firms also anticipate increases in unfilled orders.

With respect to hiring plans for the next six months, firms planning employment cuts outnumber those planning additions. The future employment diffusion index declined from 11.8 to -1.9 this month (see Chart), the first negative reading on future employment since February 1991. Although 54 percent of the firms contacted plan no changes in employment over the next six months,

firms expecting to decrease the number of workers (23 percent) now narrowly outnumber those planning increases (21 percent).

The future capital expenditures index is volatile from month to month, but the index showed a sizable rise this month, increasing from 21.4 to 32.7. Of those contacted, 39 percent are planning to increase capital expenditures, compared with just 6 percent that expect lower levels of capital spending.

SUMMARY

The recent growth in manufacturing activity appears to be moderating, according to the March *Business Outlook Survey*. The survey's indexes for both new orders and shipments edged lower this month. Indexes for unfilled orders and delivery time also suggest a moderation of growth in manufacturing demand and production. On the employment front this month, more firms report declines in employment than report increases. Survey results also indicate some lessening optimism, but reflect a generally positive outlook for continued growth in manufacturing activity.

BUSINESS OUTLOOK SURVEY Summary of Returns March 1993

Indicator	March vs. February				Six Months from Now vs. March			
	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?	15.4	49.7	34.9	19.6	10.3	33.4	56.3	46.0
Company Business Indicators								
New Orders	17.3	47.8	34.6	17.3	10.4	30.1	58.5	48.1
Shipments	18.9	40.5	38.1	19.2	13.4	33.4	53.3	39.9
Unfilled Orders	18.7	58.0	20.1	1.4	9.2	55.6	34.3	25.1
Delivery Time	13.3	79.0	7.7	-5.6	18.7	62.0	15.8	-2.9
Inventories	25.4	58.5	16.2	-9.2	31.3	40.4	28.3	-3.0
Prices Paid	7.0	70.4	22.1	15.1	2.9	50.4	44.8	41.9
Prices Received	6.0	83.6	10.3	4.3	3.8	59.5	34.0	30.2
Number of Employees	17.8	73.8	8.4	-9.5	23.0	54.0	21.1	-1.9
Average Employee Workweek	9.2	74.1	12.9	3.8	6.4	62.0	28.4	22.1
Capital Expenditures	—	—	—	—	6.3	41.3	39.0	32.7

(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