

13. March



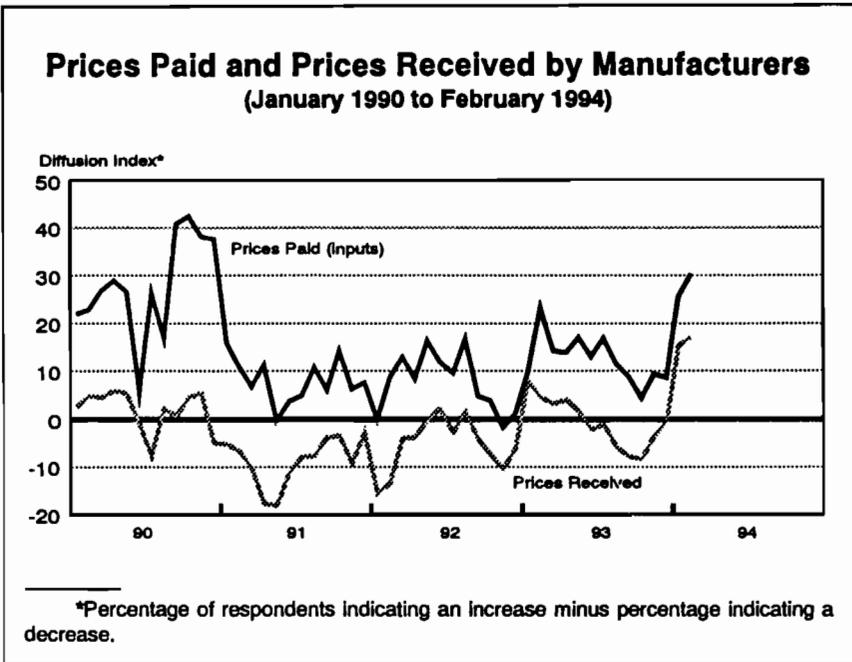
Economic Research Division

The manufacturing sector shows continuing strength, according to the February *Business Outlook Survey*. Despite several bouts of harsh winter weather across the mid-Atlantic region, those responding to this month's survey indicate continued increases in new orders and shipments. Perhaps reflecting the strength in the manufacturing sector, indexes for current prices paid and prices received increased again this month. Although most future indicators fell this month, manufacturers remain generally optimistic about improving conditions for the next six months.

CURRENT CONDITIONS

The general activity diffusion index remains strongly positive at 26.7, despite having declined in two consecutive months. The index remains above the levels recorded for most of 1993. The growth in manufacturing continues to be propelled by increases in new orders. Over 34 percent of the firms report increases in new orders this month, compared with 14 percent reporting declines. The overall diffusion index for new orders, which is now at 19.8, has also declined over the past two months but remains at a relatively high level, suggesting continued growth in demand.

An uncommonly large increase in inventories is reported this month. The current inventories index, which stood



at -16.4 in January, jumped to 13.8 this month. Indexes for unfilled orders and delivery times are above zero this month, suggesting a higher level of unfilled orders and longer delivery times. Weather may have contributed to an overall rise in reported inventories, increases in unfilled orders, and longer delivery times.

The region's manufacturing employment may be edging up, as evidenced by a slightly positive employment diffusion index. The current employment diffusion index, however, declined from a reading of 10.0 in

January to 5.2 this month. The index has remained positive in four of the past five months.

PRICES

In February a significant number of firms report increases in prices of purchased inputs. The index for prices paid has increased for two months (see Chart). Over 30 percent of those manufacturers polled report increases in input prices in February; no manufacturers report price reductions. The current prices paid diffusion index is now at its highest level since the end of



1990. Furthermore, nearly 44 percent of the firms anticipate further increases in input prices over the next six months.

This month's survey also indicates overall higher prices for goods made by survey respondents. Although the majority of firms (81 percent) report stable prices in February, nearly 18 percent indicate higher prices compared with January. The current diffusion index for prices received, which had remained negative for most of 1993, has increased for two months and is now at its highest level since June 1989 (see Chart). With regard to prices that manufacturers expect to receive for their own products over the next six months, nearly 35 percent of those polled expect higher prices; only 4 percent expect declines.

OUTLOOK

Most of the survey's future economic indicators show a decline this

month. The survey's future general activity diffusion index, which measures respondents' forecasts for general activity for the next six months, declined from a reading of 55.2 in January to 41.6 this month. Despite the overall decline, the percentage of firms expecting an improvement in conditions over the next six months (53 percent) significantly outnumbers those that expect a deterioration (11 percent). Future indicators both for shipments and for new orders also declined this month, but nearly half of the reporters still expect increases in the next six months.

On balance, firms expect to meet increases in demand with increases in production. Firms also expect inventories to decline from current levels and unfilled orders to remain steady. Firms expecting delivery times to shorten slightly outnumber those expecting times to lengthen. The anticipated increase in demand will be accompa-

nied by no overall change in employment, according to those polled. About 17 percent of the reporting manufacturers expect increases in the number of workers, which is nearly offset by the firms that expect lower employment (14 percent). The overall future employment index, which had shown improvement in recent months, declined from a level of 20.5 in January to 3.4 this month.

SUMMARY

The February *Business Outlook Survey* indicates that the region's manufacturing sector is still improving. Current indicators, although somewhat lower this month (possibly because of bad weather across the mid-Atlantic region), suggest that demand is still growing. This month's survey also reveals higher prices for both purchased inputs and final manufactured goods.

BUSINESS OUTLOOK SURVEY Summary of Returns February 1994

Indicator	February vs. January				Six Months from Now vs. February			
	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?	10.4	52.4	37.1	26.7	11.4	35.2	53.0	41.6
Company Business Indicators								
New Orders	14.4	51.4	34.2	19.8	10.1	39.0	48.8	38.7
Shipments	11.5	53.5	33.2	21.6	6.9	40.0	49.9	43.1
Unfilled Orders	18.0	54.2	27.7	9.7	12.8	69.8	14.9	2.1
Delivery Time	10.2	72.4	17.5	7.3	16.0	74.0	9.5	-6.6
Inventories	15.3	55.7	29.1	13.8	27.0	59.2	13.8	-13.2
Prices Paid	0.0	69.6	30.4	30.4	1.2	54.9	43.8	42.6
Prices Received	0.7	81.4	17.9	17.2	3.6	61.6	34.7	31.1
Number of Employees	8.7	76.8	13.9	5.2	13.6	69.1	17.0	3.4
Average Employee Workweek	7.1	70.4	20.1	13.1	10.7	73.2	16.1	5.3
Capital Expenditures	—	—	—	—	3.3	51.6	23.8	20.5

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.