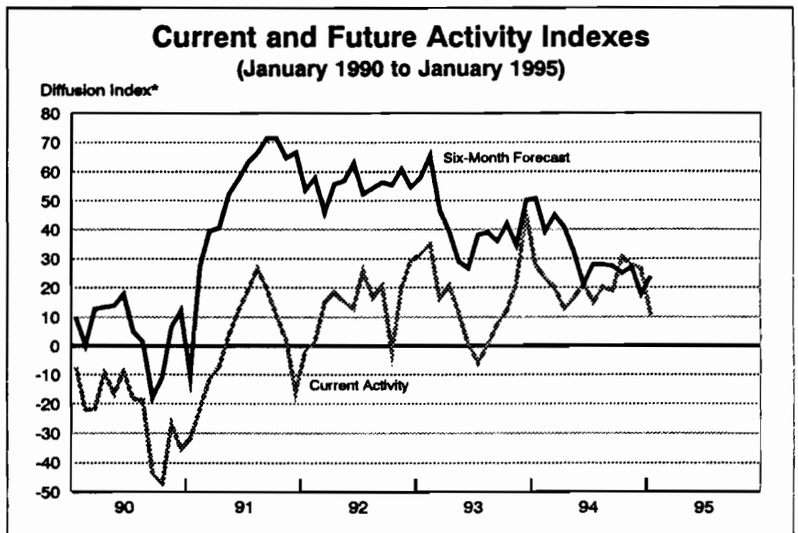
B Turnbull

Business Outlook Survey

January 1995

Economic Research Division

This month's *Business Outlook Survey* indicates that growth in the region's manufacturing sector has slowed. Although most diffusion indexes of current manufacturing activity fell sharply this month, they remain positive. Despite the weakening of most broad indicators, the survey's indexes of current prices paid and prices received increased this month. Most indicators for future activity improved this month and continue to reflect general optimism for growth over the next six months.



*Percentage of respondents indicating an increase minus percentage indicating a decrease.

INDEXES INDICATE WEAKENING ACTIVITY

The general activity diffusion index declined from a revised reading of 26.5 in December to 10.4 this month.* The index has now declined for three consecutive months but remains positive, suggesting continued, albeit weakening, growth (see Chart). Over 22 percent of the manufacturers polled indicate growth in manufacturing activity this month, but 12 percent report declines. The decline in the current general activity index was paralleled by declines in indexes for both current new orders and shipments. The shipments index fell sharply from a revised level of 25.0 in December to 4.5. The new orders index fell more moderately, from a revised 14.1 in December to 8.0. Negative readings for both the current unfilled orders and delivery time indexes offer further evidence of weakening activity.

With regard to labor market conditions, 13 percent report hiring additional workers, compared with 11 percent reporting reductions. The current employment index, now at 2.4, remained near its revised level of 6.4 in December. The average workweek index, at -10.9, indicates a decline in average hours this month.

PRICES SHOW UPWARD PRESSURE

Manufacturers continue to report upward pressure on prices, originating from increases in input prices. Both current prices paid and current prices received diffusion indexes increased this month, following two consecutive months of moderate decline. The survey's index for current prices paid increased from a revised 44.1 in December to 55.0 this month. Nearly 59

*The revisions are the result of new seasonal adjustment factors calculated at the beginning of each calendar year. Historical revisions for all series are available upon request from the Fed's publication desk: (215) 574-6428.

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percent of manufacturers polled report higher prices for purchased inputs this month. About 28 percent report that they received higher prices for their final goods. The current prices received index increased from 19.0 to 24.4.

Many manufacturers expect price pressures to continue. About 52 percent of manufacturers expect price increases for inputs during the next six months, and 39 percent expect price increases for their own products.

OUTLOOK REMAINS OPTIMISTIC

The survey's future general activity diffusion index, although increasing from 17.8 to 23.7 this month, has remained within a relatively narrow range over the past eight months (see Chart). The index, which reflects the manufacturers' outlook for the next six months, continues to reflect general optimism about continued growth, although the index is lower than the levels achieved through the first quarter of 1994. Optimism is evident in diffusion indexes for both future new orders and shipments. Over 46 percent of the polled firms expect growth in new orders, and 43 percent expect increases in shipments over the next six months. Future diffusion indexes suggest that unfilled orders and delivery times are expected to decline and inventories to shrink below current levels.

Manufacturers remain relatively guarded about their employment plans. While 21 percent of the polled firms expect to hire additional workers over the next six months, nearly 16 percent plan employment reductions. The future employment diffusion index declined moderately from a reading of 6.9 in December to 5.5 and has remained within a relatively narrow range over the past 12 months. In contrast, firms' capital expenditure plans are more optimistic. Over 32 percent expect higher capital expenditures, and just 4 percent plan reductions in such spending.

SUMMARY

Signs of moderating growth are evident in this month's *Business Outlook Survey.* Diffusion indexes for current shipments and new orders, which have been declining over the past several months, declined again this month. About one-quarter of firms, however, report growth in shipments and orders. Furthermore, the survey's price indexes, which were higher this month, may also signify an underlying strength in demand. The survey's future economic indicators, which increased this month, also suggest that manufacturers expect growth to continue in the period ahead.

BUSINESS OUTLOOK SURVEY
Summary of Returns
January 1995

Indicator	January 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?	11.7	64.6	22.1	10.4	18.1	39.8	41.8	23.7
Company Business Indicators								
New Orders	19.4	49.5	27.4	8.0	15.7	38.1	46.2	30.5
Shipments	20.3	50.2	24.8	4.5	17.2	40.3	42.6	25.4
Unfilled Orders	21.8	53.7	18.6	-3.2	22.4	60.5	17.1	-5.3
Delivery Time	17.5	71.4	7.4	-10.0	30.3	57.8	7.6	-22.7
Inventories	28.0	56.5	13.7	-14.3	44.2	41.3	14.4	-29.8
Prices Paid	4.0	37.1	58.9	55.0	6.4	40.7	51.9	45.5
Prices Received	3.8	62.7	28.2	24.4	5.1	55.3	39.0	34.0
Number of Employees	10.5	76.3	12.9	2.4	15.9	62.6	21.4	5.5
Average Employee Workweek	19.8	70.1	8.9	-10.9	18.0	60.8	19.0	1.1
Capital Expenditures	—	—	—	—	4.0	53.0	32.3	28.3

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.