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Federal Reserve Bank
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BUSINESS OUTLOOK Survey

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August 1997

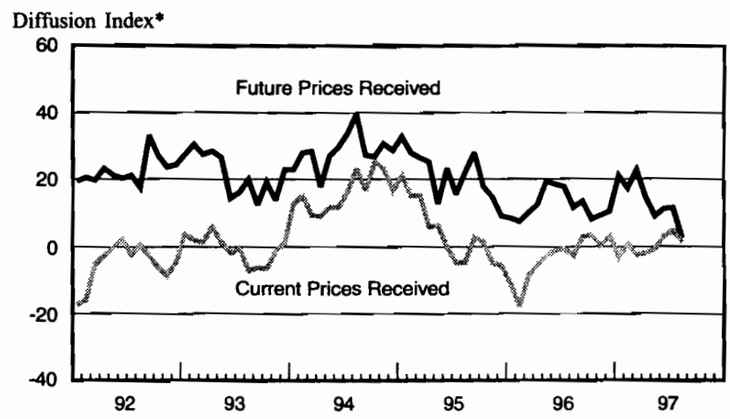
The region's manufacturers report that business is expanding at a healthy pace. According to manufacturers polled this month, new orders and shipments continue to increase and employment is on the rise. Most indicators that demonstrate the firms' expectations for the next six months remain steady and reflect some degree of caution about continued growth.

Growth Continues; Employment Increases

The survey's current general activity diffusion index fell modestly this month, from 28.1 in July to 24.3. Manufacturing firms usually report slower activity during the summer months, but the seasonally adjusted diffusion index for current general activity has remained at relatively high levels over the past few months. Survey respondents report a continued rise in both new orders and shipments this month. The diffusion indexes for these two categories declined only modestly from last month's levels. Order backlogs remained steady this month: nearly the same percentage of firms reported increases in unfilled orders as reported decreases. Delivery times were also fairly steady, although the percentage of firms reporting longer delivery times (18 percent) was narrowly higher than the percentage reporting shorter delivery times (13 percent).

The manufacturers' responses suggest overall increases in manufacturing employment this month. Nearly 24 percent of the firms report increases in employment; only 9 percent report decreases. Moreover, the current employment diffusion index showed a notable increase, from 7.7 in July to 14.2. The employment index has been positive for eight consecutive months. Nearly 20 percent of the reporting firms stated that average work hours were also higher; 13 percent reported shorter hours.

Prices Received for Manufactured Goods
(January 1992 to August 1997)



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

Current Prices Are Steady; Expectations About Prices Moderate

Nearly 79 percent of those polled reported steady prices for their final goods. The future prices received index decreased from 4.8 to 1.2 (see Chart). Although the percentage of firms reporting higher input prices (20 percent) is greater than the percentage reporting lower prices (3 percent), the current prices paid index fell this month, from 19.6 to 16.1.

Expectations regarding future price increases appear to have moderated in recent months. Although 17 percent of firms expect some increase in input prices over the next six months, the future prices paid index dipped from 18.5 to 11.0, its lowest reading since December 1995. Expectations regarding the prices of final manufactured goods also moderated this month. The future prices received index fell from 11.6 to 2.5, a new series low (see Chart).

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Expectations Remain Cautious

The surveyed firms' forecasts can be characterized as cautious. Most indicators of expected activity over the next six months held steady in August and have been at relatively low readings for the past few months. About 35 percent of firms expect business conditions to improve during the next six months, but 27 percent expect a deterioration. The future activity index (7.9) remains positive and was basically unchanged from the previous month. Expectations about new orders and shipments are similar: about 37 percent expect increases, and approximately 29 percent expect decreases. Unfilled orders are expected to decline in the next six months, and delivery times are expected to shorten.

Firms' forecasts for changes in employment over the next six months also reflect a cautious stance. While 20 percent expect to increase the number of workers, nearly the same percentage (18 percent) expects to decrease numbers. The future employment index declined slightly, from 3.8 in July to 2.0.

Summary

Overall manufacturing conditions remain healthy: the region's manufacturers report increases in new orders, shipments, and employment. Pressures on input prices remain moderate, and prices of final manufactured goods are reported steady. Expectations for future price increases are also on the wane. While current business conditions are favorable, overall expectations for continued growth remain relatively conservative.

BUSINESS OUTLOOK SURVEY

Summary of Returns
August 1997

	August vs. July				Six Months from Now vs. August			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	8.8	55.3	33.1	24.3	27.4	34.8	35.3	7.9
Company Business Indicators								
New Orders	14.1	46.7	39.2	25.1	28.4	31.1	36.7	8.3
Shipments	11.7	46.4	38.9	27.3	29.7	27.9	36.8	7.1
Unfilled Orders	17.2	62.5	18.0	0.9	30.4	49.2	17.5	-13.0
Delivery Time	12.6	66.8	18.3	5.7	28.4	58.8	8.0	-20.5
Inventories	29.1	52.3	18.3	-10.8	31.8	43.6	16.0	-15.7
Prices Paid	3.4	76.0	19.5	16.1	6.4	73.8	17.4	11.0
Prices Received	10.1	78.6	11.2	1.2	12.7	69.8	15.2	2.5
Number of Employees	9.4	65.6	23.6	14.2	18.1	58.7	20.1	2.0
Average Employee Workweek	13.1	65.6	19.5	6.3	23.8	55.0	18.0	-5.8
Capital Expenditures	—	—	—	—	12.4	43.6	30.8	18.5

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.