

July 1998

Regional manufacturing activity is reportedly expanding at a slower pace this month. Most of the survey's current indicators of economic performance declined from their relatively high readings of the previous month. Upward price pressures are notably absent this month. The manufacturers' responses indicate that overall weaker performance is expected over the rest of the year.

Indicators Fall to Their Lowest Readings This Year

The current general activity index declined from 28.2 in June to 11.6 this month, the lowest level since December (see Chart). Nearly 29 percent of the manufacturers report increases in activity this month, compared with nearly 40 percent the previous month. Slowing is also evident in firms' responses regarding shipments and new orders this month. Although the percentage of firms reporting increases in shipments and new orders is greater than the percentage reporting decreases, the diffusion indexes for both dropped to their lowest readings this year. The current shipments index declined from 27.4 to 7.2. The current new orders index fell from 22.6 to 7.5.

The percentage of firms reporting increases in employment (18 percent) edged out the percentage reporting declines (14 percent). The current employment index fell from 7.9 to 4.5. The average workweek index, however, declined markedly from 11.8 to -2.1.

Despite regional manufacturing's slower rate of growth, responses regarding unfilled orders and delivery times changed little. The percentage of firms reporting increases in unfilled orders (26 percent) is greater than the percentage reporting decreases (19 percent). The current unfilled orders index increased from 6.8 to 7.5. More firms reported longer delivery times (19 percent) than reported shorter ones (10 percent). The delivery time index, which remained positive for the third consecutive month, increased from 2.3 in June to 8.2.

Price Indexes Fall to Relative Lows

Pressures on input prices moderated notably this month, according to the region's manufacturers. For the first time since February 1996, the percentage of firms indicating declining input prices (12 percent) was larger than the percentage indicating increases (9 percent). The current prices paid index fell from 6.1 to -2.1.

Prices of final manufactured goods are reported steady by 69 percent of firms. For the first time since March, the percentage of firms reporting declining prices for goods (18 percent) is greater than the percentage reporting rising prices (12 percent). The current prices received index fell from 1.1 in June to -5.8.

Forecasts Fall Precipitously in Past Few Months

A notable decline in expectations was in evidence in the previous survey and again this month. The future activity diffusion index fell from -0.5 in June to -13.1, its lowest reading since 1990 and the fourth consecutive month of decline (see Chart). Although 44 percent of respondents expect no change in activity from current levels, the percentage expecting declines (32 percent) is greater than the percentage expecting increases (19 percent). A similar pattern is in evidence regarding firms' expectations about future new orders and shipments. Firms anticipate that declines in orders will be accompanied by declines in unfilled orders and shorter delivery times. On balance, inventories are expected to decline from current levels.

For the second consecutive month, the percentage of firms expecting declines in

employment (26 percent) is greater than the percentage expecting increases (19 percent). The future employment index also fell from -2.9 to -7.4, its lowest reading since January 1996. Declines in average work hours are also consistent with declines in other broad forecast indicators. The future index for average employee workweek declined from -10.5 to -23.5.

Summary

Although last month's survey reported robust growth in regional manufacturing, Business Outlook Survey indicators this month suggest only slight improvements in overall business. Slowing of growth is evident in responses regarding new orders, shipments, and average work hours. More firms reported declines in input and output prices this month than reported increases. Sharp declines in the six-month forecast indicators over the past few months suggest weaker conditions are expected through the end of the year.

Business Outlook Survey
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	July vs June				Six Months from Now vs. July			
	Dec.	No ch.	Inc.	Index	Dec.	No ch.	Inc.	Index
General Business Conditions	17.0	54.5	28.6	11.6	32.0	44.3	18.9	-13.1
New Orders	24.8	42.9	32.3	7.5	35.9	34.0	28.8	-7.1
Shipments	18.0	56.9	25.2	7.2	35.6	38.1	22.4	-13.2
Unfilled Orders	18.8	54.9	26.3	7.5	41.0	45.4	9.7	-31.3
Delivery Times	10.3	70.0	18.6	8.2	30.4	59.1	6.7	-23.8
Inventories	26.9	57.3	15.7	-11.2	35.3	43.1	20.8	-14.6
Prices Paid	11.5	79.1	9.4	-2.1	5.4	59.8	33.4	28.1
Prices Received	17.7	69.3	11.9	-5.8	18.9	55.2	25.5	6.5
Number of Employees	13.9	67.7	18.4	4.5	26.1	55.3	18.6	-7.4
Avg. Employee Workweek	22.0	58.1	19.9	-2.1	35.7	50.5	12.2	-23.5
Capital Expenditures	-	-	-	-	14.1	43.1	22.6	8.5

Notes: (1) Items may not add to 100 percent because of omission by respondents.
(2) All data are seasonally adjusted.
(3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease.