

Outlook

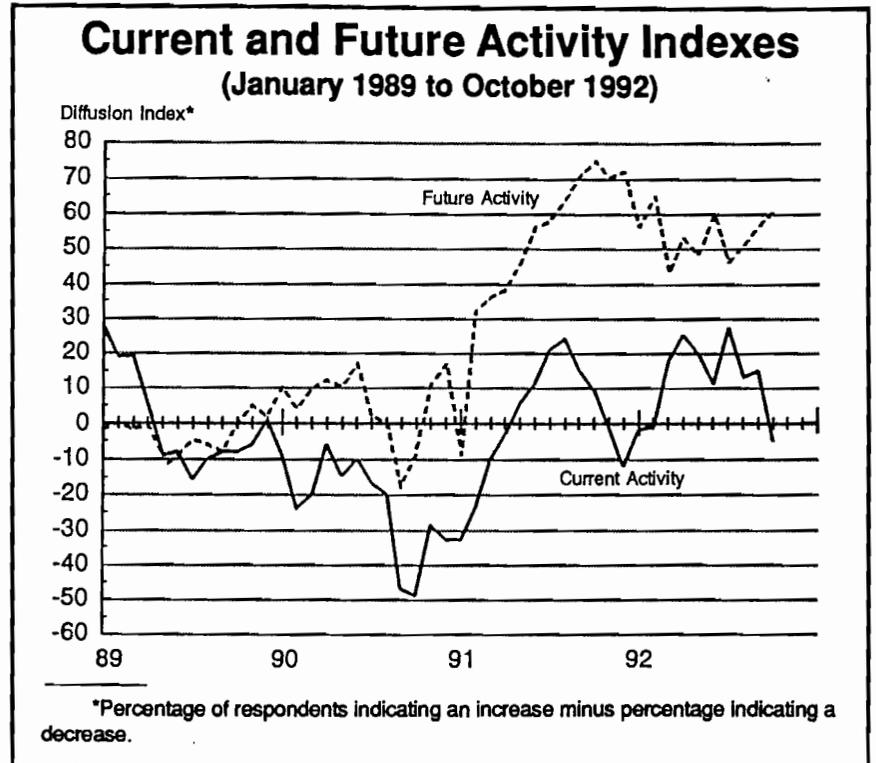
Economic Research Division

Conditions in the manufacturing sector have weakened, according to this month's *Business Outlook Survey*. The diffusion index for general business activity registered a negative reading this month, after being positive for seven consecutive months. Individual indicators of manufacturing activity also deteriorated, led by an increase in firms reporting reductions in new orders. Survey responses suggest that shipments are nearly unchanged from those of the previous month. Although a weakening of demand is reported this month, expectations about future activity have not deteriorated. Respondents, on balance, continue to expect improvements in business over the next six months.

CURRENT CONDITIONS

The diffusion index for overall business activity fell from a level of 14.7 to -4.7 this month. Although 56 percent of those responding to the survey report no change in activity, the percentage indicating declines from the previous month (25 percent) outnumbers that indicating increases (20 percent). This is the first time since February that the percentage of firms reporting declines in activity outnumbers the percentage reporting increases.

Individual indicators of economic activity suggest that demand for manufactured products has weakened and that production has flattened. The shipments diffusion index has fallen



from a level of 17.3, recorded in September, to 3.0 this month. Shipments are increasing at 25 percent of the firms polled this month, compared with 22 percent reporting declines. New orders, which had been relatively strong over recent months, also deteriorated this month, according to survey respondents. The new orders diffusion index declined from 20.9 to -4.6 this month, reflecting a large increase in the number of firms report-

ing declining orders.

On balance, surveyed participants also report a drop in employment this month. Although a majority of manufacturing firms (68 percent) report no change in payrolls, the percentage reporting cuts in their work force (20 percent) outnumbers the percentage making additions (12 percent). The employment index, which now stands at -8.5, has fallen from a reading of 0.4 in September.



PRICES

Slack demand is apparently placing additional downward pressure on manufactured goods prices. Output prices remain unchanged from the previous month at about 82 percent of the manufacturing establishments. About 13 percent of those polled indicate declines in their prices this month, outnumbering those reporting price increases (only 4 percent).

For the first time since January, the percentage of firms reporting declines in prices for raw materials and other purchased inputs outnumbers those reporting increases. Although 77 percent of the firms report no change in these costs, more than 11 percent report declines, compared with less than 10 percent reporting increases. The diffusion index for prices paid by manufacturers now stands at -1.7, its lowest level since April 1986. Only three other months have registered a lower number since the beginning of this series in 1968.

OUTLOOK

Although most current indicators are down this month, most indicators regarding activity expected over the next six months are steady or improved. The overall diffusion index for future activity increased from a level of 55.7 in September to 60.9 this month. About 66 percent of the reporting firms expect conditions to improve in the next six months, compared with just 5 percent expecting a deterioration in conditions. Expectations regarding shipments and new orders remain positive; more than half of the firms surveyed forecast gains, while less than 1 in 10 anticipate decreases. On balance, reporters expect unfilled orders to increase and delivery times to hold steady.

With respect to labor market conditions, most firms (55 percent) expect to maintain current levels of employment during the next six months. The percentage of firms anticipating increas-

ing employment (30 percent) is twice the percentage expecting reductions (15 percent). On balance, firms expect the average workweek to grow over the next six months as well.

SUMMARY

Responses from the October *Business Outlook Survey* suggest that the region's manufacturing sector is weakening. Shipments are virtually unchanged from the levels reported in the previous month. Most current indicators, especially new orders, showed some deterioration this month. Survey responses also indicate that slackening demand is placing additional downward pressure on both input and output prices. An apparent weakening in business conditions, however, has not affected firms' expectations for the future—few firms expect any deterioration in business over the next six months.

BUSINESS OUTLOOK SURVEY Summary of Returns October 1992

Indicator	October vs. September				Six Months from Now vs. October			
	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?	24.5	55.6	19.9	-4.7	4.8	27.9	65.8	60.9
Company Business Indicators								
New Orders	29.8	45.1	25.2	-4.6	7.7	27.6	64.7	57.0
Shipments	21.7	53.5	24.7	3.0	6.2	34.2	59.6	53.4
Unfilled Orders	17.1	71.9	9.5	-7.7	6.2	60.2	32.1	25.9
Delivery Time	14.4	75.2	10.5	-3.9	12.2	71.6	14.4	2.3
Inventories	29.7	49.5	20.8	-8.9	26.5	53.4	19.5	-7.0
Prices Paid	11.3	76.7	9.7	-1.7	1.7	46.5	49.9	48.2
Prices Received	13.1	82.1	4.0	-9.1	3.8	61.8	34.5	30.7
Number of Employees	20.2	68.0	11.8	-8.5	15.0	55.0	30.0	15.0
Average Employee Workweek	16.8	68.0	12.4	-4.4	3.6	67.5	23.0	19.5
Capital Expenditures	—	—	—	—	7.7	46.8	33.1	25.4

Notes: (1) Items may not add up to 100 percent because of omission by respondents.

(2) All data seasonally adjusted.