

BUSINESS

O U T L O O K

Survey

December 1995

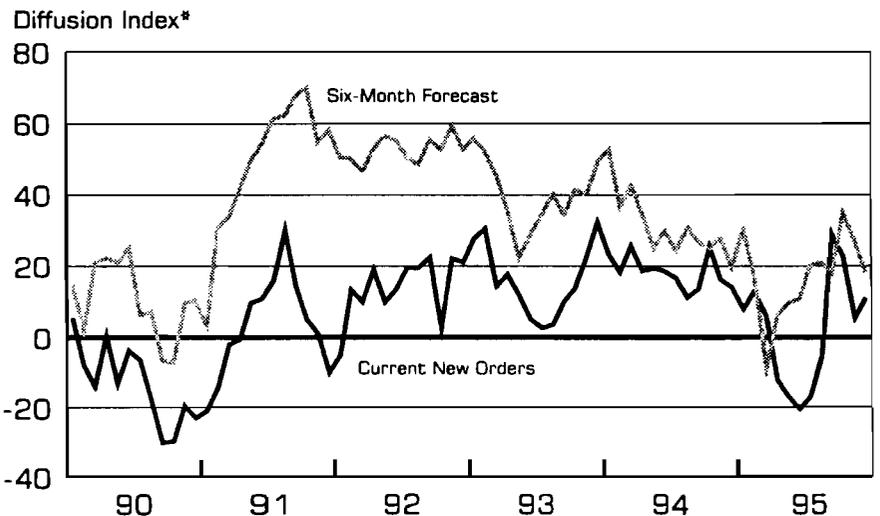
Responses to this month's *Business Outlook Survey* indicate continued increases in shipments and new orders for the region's manufacturers, although signs of weakness are also apparent. Those polled, for example, report declines in manufacturing employment as well as average work hours this month. Price pressures in input and output markets continue to moderate, according to the manufacturers. Indicators reflecting expectations for the next six months weakened this month but remain generally optimistic.

Current Indicators Are Consistent With Moderate Growth

The survey's current general activity diffusion index increased from 7.9 in November to 21.5. Individual indicators also showed increases. The current shipments index, which turned negative in November, increased from -2 to 15. The current new orders index increased somewhat more moderately, from 5.5 in November to 11.0. The average readings of the new orders and shipments index over the past two months, however, suggest somewhat slower growth than that reported in September and October and this time a year ago (see Chart). Manufacturers also report a corresponding decline in inventories this month; the current diffusion index for inventories dropped sharply from a positive reading of 3.8 in November to -13.4.

Current employment indicators suggest that this month's expansion in manufacturing has occurred despite continued declines in employment. For

Current and Future New Orders Index (January 1990 to December 1995)



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

the second consecutive month the percentage of firms reporting a decline in employment (23 percent) is greater than the percentage reporting an increase (16 percent). Consequently, the current employment diffusion index declined from a November reading of -1.4 to -6.9. More firms reported a decline in average workweek (22 percent) than reported an increase (11 percent), and the current index for the average workweek also fell from -5.4 to -10.7.

Price Measures Suggest Overall Stable Manufacturing Prices

The survey's price indexes continued a downward trend this month. The current prices paid index, which reflects changes in firms' prices for raw

materials and other purchased inputs, fell sharply from 12.3 to 3.0—the lowest reading of this index in almost four years. The prices paid index has declined in 11 of the 12 months of 1995.

Prices of final manufactured goods are also reported steady. The prices received index remained negative for the second consecutive month, virtually unchanged at -2.8. About 81 percent of firms report no change in prices for their output, and the percentage reporting

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price reductions (10 percent) exceeds the percentage reporting increases (7 percent).

Manufacturers' price expectations for the next six months also remain subdued. Indexes for both future prices paid and future prices received declined again this month and are near their lowest levels in the 28-year history of the survey.

Most Future Indexes Declined This Month

Despite the increase in most of the survey's broad current indicators this month, most future indicators, which reflect manufacturers' expectations for the next six months, declined. The survey's future general activity index declined from 29.4 to 15.4, the lowest reading since June. Although more firms expect the manufacturing expan-

sion to continue than expect it to recede over the next six months, this gap narrowed considerably this month.

Future diffusion indexes for new orders and shipments paralleled the decline in the future general activity index. On balance, inventories are expected to decline below current levels, and delivery times are expected to shorten.

The manufacturers, as a group, are not expecting increases in employment over the next six months. About 55 percent forecast no change from current employment levels, and the percentage forecasting an increase in workers (22 percent) is only slightly larger than the percentage expecting declines (21 percent). The future employment diffusion index declined from 8.3 to 1.8. Forecasts for capital expenditures over the next six months remain positive: almost 33 percent expect to increase

capital expenditures during the next six months; just 8 percent expect to decrease them.

Summary

Business Outlook Survey responses this month indicate moderate improvement in manufacturing activity. While the indexes for general activity, new orders, and shipments rose this month, other current indicators (employment and prices) suggest weakness. Manufacturers report lower employment this month and virtually steady input and output prices. Although forecasts of manufacturing activity for the next six months remain optimistic, the survey's future indicators dipped lower this month.

BUSINESS OUTLOOK SURVEY

Summary of Returns
December 1995

	December vs. November				Six Months from Now vs. December			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	11.1	55.7	32.6	21.5	20.7	43.2	36.1	15.4
Company Business Indicators								
New Orders	22.6	43.8	33.6	11.0	19.7	41.0	37.9	18.2
Shipments	22.7	39.4	37.7	15.0	19.2	39.7	34.4	15.1
Unfilled Orders	27.3	45.3	23.8	-3.5	24.8	41.9	30.4	5.7
Delivery Time	12.2	72.6	14.0	1.9	23.2	63.0	9.6	-13.6
Inventories	38.6	35.8	25.2	-13.4	34.6	46.6	16.0	-18.6
Prices Paid	17.2	58.8	20.2	3.0	15.8	60.2	24.0	8.2
Prices Received	10.0	80.7	7.2	-2.8	13.2	66.1	20.6	7.4
Number of Employees	23.0	59.9	16.1	-6.9	20.5	55.4	22.2	1.8
Average Employee Workweek	21.7	60.6	11.0	-10.7	13.7	65.1	20.4	6.7
Capital Expenditures	—	—	—	—	7.5	50.0	32.6	25.1

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.

