

BUSINESS

OUTLOOK Survey

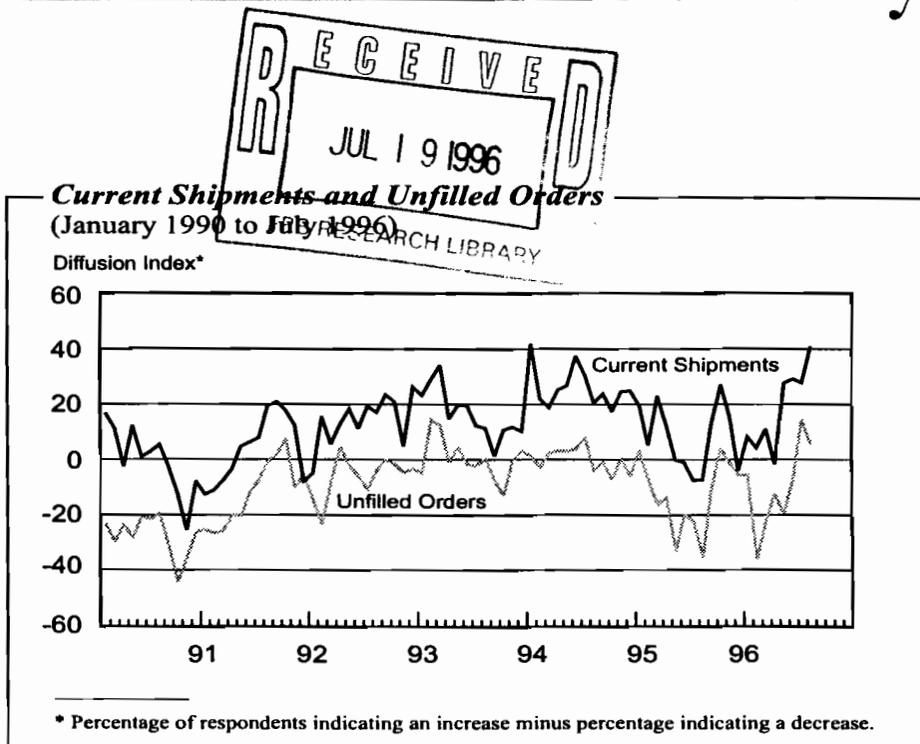
July 1996

Signs of improvement in the region's manufacturing sector are again evident from this month's *Business Outlook Survey*. Indexes for both current general activity and current shipments posted healthy increases this month, and the index for current new orders held steady at relatively high levels. This month's survey also suggests improvement in manufacturing employment. Overall future indicators are little changed this month but reflect optimism for continued gains over the rest of the year.

Current Indicators Point to Continued Manufacturing Expansion

Most of the survey's current manufacturing indicators, which have been positive for four consecutive months, improved again this month. The current general activity diffusion index increased from 25.6 in June to 38.6. Although 42 percent of the firms reported no change in activity from the previous month, the percentage reporting increases (48 percent) was much greater than the percentage reporting declines (10 percent). The current new orders index remained strong at 31.6, virtually unchanged from the previous month. After last month's reported rise in unfilled orders, shipments are reported higher this month. The current shipments index increased markedly from 27.7 in June to 41.0 this month, with over half of the respondents indicating increases in shipments (see Chart).

As shipments rose, the index for current delivery time declined from its



positive reading of 8.3 in June to -0.4 this month. Similarly, the unfilled orders index fell from 14.4 to 5.6 (see Chart).

For the third consecutive month, the percentage of firms reporting increases in employment (24 percent) was greater than the percentage reporting declines (14 percent). The current employment diffusion index increased from 4.7 to 9.3, the highest reading for this index since November 1994. Also, for the fourth consecutive month, the average work-week index remained positive and increased slightly, from 5.3 to 7.2.

Prices of Manufactured Goods Remain Steady

This month's survey shows little change in its price indicators. The current prices paid diffusion index fell

modestly, from a reading of 15.5 to 12.8. The largest share of firms (69 percent) report no change in the prices paid for raw materials and other inputs, although the share reporting increases (22 percent) continues to be greater than the percentage reporting declines (9 percent).

In spite of reports of price increases for inputs, prices for final manufactured goods are reported steady by about 69 percent of the reporting firms. Moreover, virtually the same percentage of firms reported price increases for their goods (14 percent) as reported decreases

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(15 percent). The current prices received index increased modestly, from -1.8 in June to -0.4, but has now remained negative for nine consecutive months.

Most Future Indicators Are Unchanged

Most future indicators held steady this month, following increases in the previous month. Firms remain optimistic about continued growth for their businesses over the next six months. The future general activity diffusion index declined modestly, from 37.9 to 34.7, but the future indicator for new orders increased from 33.5 to 36.4. More than one-half of respondents expect increases

in new orders over the next six months; only 14 percent expect declines. On balance, firms expect a rise in unfilled orders, but a slightly larger share of firms expect delivery times to shorten (19 percent) than lengthen (15 percent).

Improvement for manufacturing is also seen in firms' forecasts for future employment. The future employment diffusion index has shown steady increases over the past three months. The index increased from a reading of 8.0 in June to 15.4, the highest reading since January 1994. Although 54 percent of firms expect no change in employment over the next six months, the percentage expecting increases

(30 percent) is greater than the percentage expecting declines (15 percent).

Summary

Continuing the positive trend of the second quarter, the region's manufacturing firms report improving business conditions as they begin the second half of the year. On balance, firms reported growth in employment and average work hours this month and expect more employment growth in the second half of the year. Even though activity levels have increased, prices for manufactured goods remain stable. Firms are relatively optimistic about further gains in activity over the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns July 1996

	July vs. June				Six Months from Now vs. July			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	9.5	42.3	48.1	38.6	13.0	37.0	47.7	34.7
Company Business Indicators								
New Orders	20.5	27.2	52.1	31.6	14.1	32.3	50.5	36.4
Shipments	10.5	37.7	51.5	41.0	14.2	32.8	49.8	35.7
Unfilled Orders	24.6	43.1	30.2	5.6	14.6	53.1	28.3	13.7
Delivery Time	19.7	60.8	19.3	-0.4	18.9	63.8	15.4	-3.5
Inventories	30.3	48.0	21.6	-8.8	30.8	44.2	23.6	-7.1
Prices Paid	9.2	68.5	22.0	12.8	2.5	60.9	36.6	34.1
Prices Received	14.7	68.6	14.3	-0.4	4.8	69.0	24.1	19.3
Number of Employees	14.4	62.0	23.6	9.3	15.0	54.2	30.3	15.4
Average Employee Workweek	18.2	56.4	25.4	7.2	14.1	63.4	21.8	7.7
Capital Expenditures	—	—	—	—	10.0	44.5	29.7	19.7

- 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.