

Economic Research Department

The region's manufacturing sector remains weak, according to the *Business Outlook Survey* for February. Thirty-eight percent of the firms covered by the survey report that business continues to slip while only 12 percent indicate that activity is picking up. There is a hint of some moderation in the downtrend, however, as fewer firms are reporting drops in business this month compared to January and more are operating at a steady rate. But the overall picture remains dim as all measures of industrial activity indicate continued softness this month. Reductions in payrolls and working hours at area factories in February reflect slowing production, and drops in orders and shipments signify declining demand for manufactured goods.

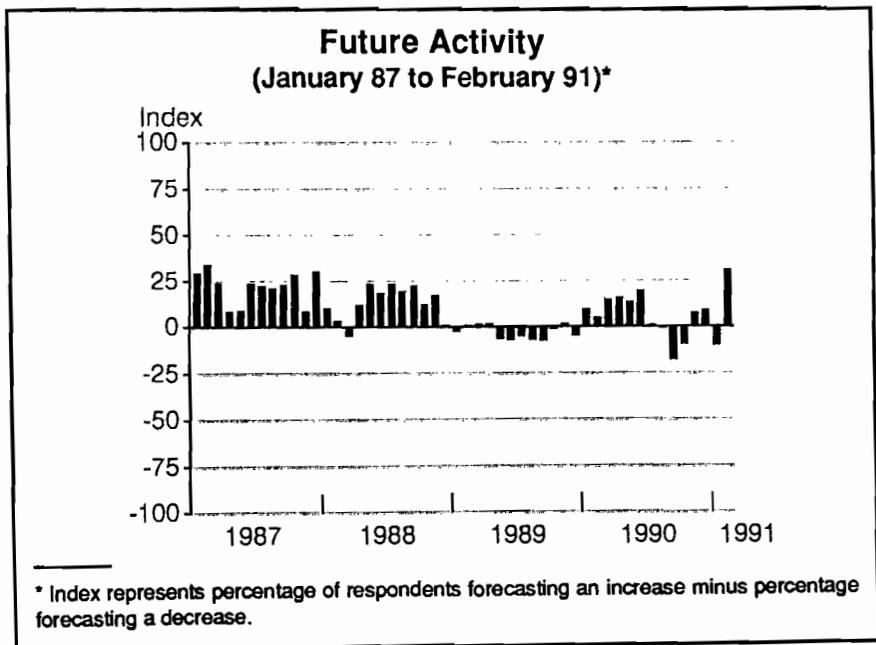
Soft conditions in goods-producing industries and an easing in overall economic activity in the U.S. have led some analysts to look to foreign demand to revive the manufacturing sector. Reports from *Business Outlook Survey* participants suggest that their foreign customers are buying even while domestic customers are cutting back purchases. On balance, respondents who sell their products in foreign markets (about two-thirds of the firms surveyed) say export orders have been rising in

recent months and they are stepping up their overseas shipments in response.

With some moderation in the downtrend this month, survey participants are raising their sights for the future. In a rebound from the January survey, positive views surpass negative forecasts among survey respondents, and optimistic forecasts are more prevalent now than in any month since February 1987 (see chart): nearly half of the firms polled for the February survey expect business to improve over the

next six months while less than one-fifth anticipate further slowing. On balance, managers at area plants see orders rising between now and August and they expect to step up shipments accordingly. Survey participants forecast gains in both domestic and foreign sales. Increased activity is unlikely to bring improvement to the employment situation at area plants, however. Overall, local companies plan some additional trimming of payrolls, and they intend to hold working hours steady.

Industrial prices in the region



are close to steady, according to this month's survey. Sixty-six percent of the companies polled say input costs are unchanged from a month ago and eighty-four percent are holding the line on the prices of the goods they make. Looking ahead, surveyed firms expect some upward movement in prices; nearly half anticipate that the prices of the goods

they purchase will increase over the next six months and, while two-thirds intend to hold the prices of their products flat, one-fourth plan to charge more.

In summary, manufacturing activity in the region continues to move down although the number of firms reporting slower business has declined from last month. Managers at

area plants say export business has been rising, and they expect both foreign and domestic demand to grow over the next six months. While they forecast healthier business conditions by fall, they do not foresee an improvement in the employment picture.

BUSINESS OUTLOOK SURVEY
Summary of Returns
February 1991

Indicator	February vs. January				Six Months from Now vs. February			
	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?	37.6	50.2	12.3	-25.3	17.0	33.9	48.0	31.0
Company Business Indicators								
New Orders	36.4	43.8	19.8	-16.6	16.9	33.8	48.0	31.1
Shipments	33.7	44.0	19.9	-13.7	12.3	37.5	47.2	34.9
Unfilled Orders	33.2	57.8	9.0	-24.1	17.3	58.6	24.0	6.7
Delivery Time	28.0	66.0	6.0	-22.0	19.9	70.1	9.9	-10.0
Inventories	43.9	33.7	15.5	-28.4	37.0	37.0	23.4	-13.6
Prices Paid	12.3	66.4	21.4	9.1	8.8	44.9	46.4	37.6
Prices Received	12.5	84.1	3.4	-9.1	3.4	68.5	27.1	23.7
Number of Employees	30.0	59.9	10.0	-20.0	32.3	45.9	21.8	-10.6
Average Employee Workweek	36.7	57.5	4.0	-32.7	17.2	64.4	17.9	0.7
Capital Expenditures	—	—	—	—	18.8	42.0	27.3	8.5

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.