

## Economic Research Department

According to this month's *Business Outlook Survey*, business conditions in the manufacturing sector are deteriorating sharply. The survey's broadest measure of overall activity shows that, despite gains made during the spring and summer, recent declines have returned the index to levels prevailing at the beginning of 1991.

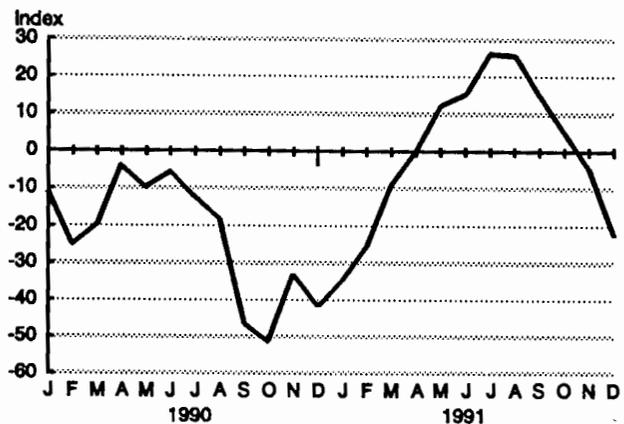
### CURRENT CONDITIONS

The overall index of manufacturing activity stands at -22 in December. Almost 42 percent of manufacturers surveyed in December report declines and only 19 percent indicate increases (see chart). After reaching its peak of 26.1 in July, the index has now declined for five consecutive months and has been negative for two months. Its current level is the lowest since February 1991.

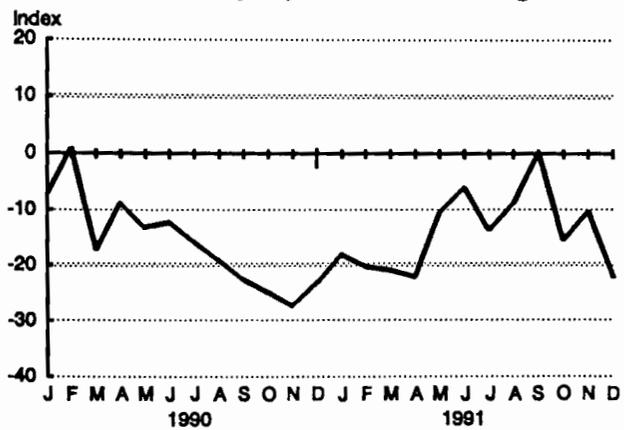
Manufacturing employment continues to fall, according to surveyed respondents. Twenty-nine percent of survey respondents report reductions in payrolls and only 7 percent are adding workers, resulting in a diffusion index of -22. According to our survey, in the last two years the number of manufacturers reporting declining payrolls exceeded those reporting increases in all but two months (see chart).

The reported decline in manu-

### Current Business Activity Deteriorating... (January 1990 to December 1991)\*



### And Employment Declining.



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



facturing is reflected also in a parallel decline in shipments and new orders. Shipments are on the decline at 28 percent of surveyed firms and rising at only 20 percent. Thirty percent of respondents report that unfilled orders are falling, while only 10 percent are seeing increases.

#### PRICES

Industrial prices are relatively stable, according to survey participants. About 78 percent report steady prices for the goods they produce, and the percentage of firms indicating higher prices nearly matches the percentage indicating lower prices. Input prices remain generally stable, as 80 percent of respondents indicate no change from the previous month. Seventeen percent report rising input prices, compared to just

2 percent indicating declining input prices.

On balance, survey respondents expect prices to rise over the next six months for both manufacturing inputs and their own manufactured goods. Nevertheless, expectations of rising prices are not as common among survey participants this month as they were on average over the past six months.

#### OUTLOOK

Although the diffusion index of current business activity has declined precipitously in the last four months, surveyed firms continue to believe that business conditions will improve by mid-1992. Of those polled in December, about 68 percent expect improved conditions by midyear. This percentage has decreased only

slightly over the past four months.

The percentage of firms expecting declining employment levels in the next six months increased somewhat in December. Still, almost 32 percent expect employment increases over current levels, compared to 18 percent expecting decreases.

#### SUMMARY

The region's manufacturing sector has weakened in recent months to the recessionary level prevailing at the beginning of the year. Employment, shipments, and new orders are declining. Prices remain generally stable, according to those surveyed. Survey participants are forecasting improvement in manufacturing business by midyear.

### BUSINESS OUTLOOK SURVEY Summary of Returns December 1991

Indicator	December vs. November				Six Months from Now vs. December			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
<b>General Business Conditions</b>								
What is your evaluation of the level of general business activity?	41.7	38.9	19.3	-22.4	4.3	27.0	67.6	63.3
<b>Company Business Indicators</b>								
New Orders	37.5	39.7	20.9	-16.6	8.7	28.7	61.9	53.2
Shipments	28.3	48.3	19.6	-8.8	7.4	27.3	64.3	56.9
Unfilled Orders	30.1	53.3	10.1	-20.0	11.1	51.2	35.1	23.9
Delivery Time	9.1	83.5	6.3	-2.8	16.9	72.3	8.8	-8.2
Inventories	38.0	47.9	12.2	-25.8	31.8	44.5	22.7	-9.2
Prices Paid	2.4	80.1	17.1	14.7	4.5	50.2	40.4	35.8
Prices Received	11.6	77.6	10.7	-0.9	6.3	64.6	25.2	18.9
Number of Employees	29.4	63.5	7.1	-22.4	18.1	48.9	32.0	14.0
Average Employee Workweek	30.7	64.4	4.9	-25.9	13.4	57.2	29.4	15.9
Capital Expenditures	—	—	—	—	19.6	30.1	29.6	10.0

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

(2) All data seasonally adjusted.

Diffusion indices represent the percentage of respondents indicating an increase minus the percentage indicating