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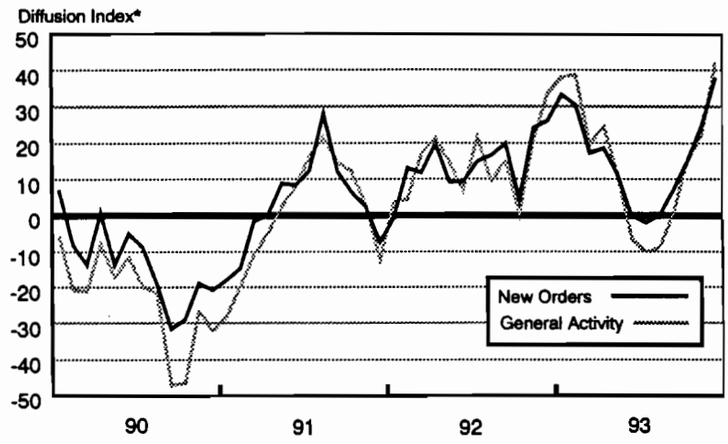
The pace of growth in the region's manufacturing sector has accelerated, according to the December *Business Outlook Survey.* The survey's broadest measure of economic activity, the general business activity diffusion index, increased markedly this month and has now registered sizable gains over the past three months. Current indicators for both manufacturing shipments and new orders also registered healthy gains. Employment levels are reported unchanged this month, but the average workweek is longer. Most indexes of future manufacturing activity have also improved this month and are at their highest levels since February of this year.

Current General Activity and New Order Indexes
(January 1990 to December 1993)



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

CURRENT CONDITIONS

The general business activity diffusion index increased from 22.4 in November to 42.4 this month. The index has registered large gains over the past three months (see chart) and is now near its highest level in the 25-year history of the survey. Of the manufacturing firms polled, 42 percent indicate increases in activity this month; no respondents indicate a decline.

This month's increases in the diffusion indexes for both shipments and new orders reflect a pickup in manufacturing. The shipments index, which stood at just 7.7 in November, jumped to 47.1 this month. Nearly 50 percent of the firms indicate a rise in shipments this month, which compares with only 23 percent of respondents indicating an increase in shipments in the November survey. The new orders index has paralleled the rise in the general activity index (see chart). New orders are higher at 40 percent of the reporting firms; only 2 percent report a decline.

Increases in production are being accomplished with no change in overall employment, according to those polled. Almost 76 percent of the firms indicate no change in the number of workers, and the number of firms that hired additional workers (13 percent) only narrowly outnumbered those reporting cuts (9 percent). About 18 percent of those polled indicate a longer workweek, however, as the average workweek diffusion index rose from -5.7 in November to 15.3 this month. An uncommonly large decline in the inventories index this month may bode well for increases in production in the near term. The current inventories index, which stood at 9.1 in November, fell to -10.2 this month. Current unfilled orders and delivery times, however, are reported near stable, with both diffusion indexes near zero.

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PRICES

Despite an apparent pickup in manufacturing activity, current prices of manufactured goods remain steady. Almost 80 percent of reporting firms indicate no change in the prices of their manufactured goods, and more firms report declines in their prices (12 percent) than report increases (9 percent). Prices of purchased inputs are also reported steady at 79 percent of the reporting manufacturers, and firms reporting increases in input prices (14 percent) outnumber those reporting a decline (6 percent).

Expectations regarding increases for manufactured good prices over the next six months may be buoyed by an apparent increase in demand this month. The diffusion index for future prices received increased this month but remains below levels recorded in the first several months of this year.

OUTLOOK

Indicators of future manufacturing activity are also improved this month. The overall diffusion index for future activity increased from 40.3 in November to 54.8 this month, the highest level since February. Almost 65 percent of the surveyed firms expect increases in manufacturing activity in the next six months (the largest proportion since February), and only 10 percent expect decreases. The reporting manufacturing firms expect an increase in unfilled orders in the next six months, but delivery times are expected to remain steady. On balance, firms expect a decline in inventories (35 percent); only 16 percent expect an increase.

Although the survey's future indicators are on the rise, those surveyed are not expecting large increases in manufacturing employment--the percentage of surveyed firms expecting to hire additional workers over the next six months (18 percent) is offset somewhat by the percentage expecting to make cuts (9 percent). The future employment diffusion index, which registered 6.7 in November, increased marginally to 8.9 this month. The index remains below the level of 15.0 recorded in October and considerably lower than levels reached earlier in the year. Firms responding to this month's survey are more optimistic with regard to increases in capital expenditures over the next six months. Almost 30 percent of polled firms report plans to increase capital expenditures over the next six months.

SUMMARY

Responses to this month's *Business Outlook Survey* indicate an acceleration of economic activity in the region's manufacturing sector. A higher proportion of firms reporting increases in shipments and new orders indicates that conditions have improved markedly. Despite apparent increases in demand for manufactured goods, manufacturing employment is reported steady again this month, although those surveyed report increases in the average workweek. The survey's future economic indicators point toward continued improvement in the manufacturing sector over the next six months.

BUSINESS OUTLOOK SURVEY
Summary of Returns
December 1993

Indicator	December vs. November				Six Months from Now vs. December			
	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?	0.0	57.6	42.4	42.4	9.7	25.7	64.6	54.8
Company Business Indicators								
New Orders	1.5	56.9	39.6	38.1	7.8	26.4	62.8	55.0
Shipments	2.5	40.6	49.6	47.1	7.5	31.3	59.5	52.0
Unfilled Orders	9.4	76.6	13.1	3.7	12.2	63.5	22.1	9.9
Delivery Time	10.9	80.0	7.5	-3.5	9.5	76.7	11.3	1.8
Inventories	23.1	61.0	12.9	-10.2	34.5	48.3	15.8	-18.7
Prices Paid	6.0	78.5	14.4	8.4	3.3	58.9	36.3	33.0
Prices Received	11.8	79.5	8.5	-3.3	1.3	72.5	26.2	24.9
Number of Employees	9.3	75.6	13.4	4.1	8.7	71.1	17.6	8.9
Average Employee Workweek	3.1	76.5	18.4	15.3	14.5	67.2	18.2	3.7
Capital Expenditures	—	—	—	—	9.9	41.9	29.8	19.9

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.

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