

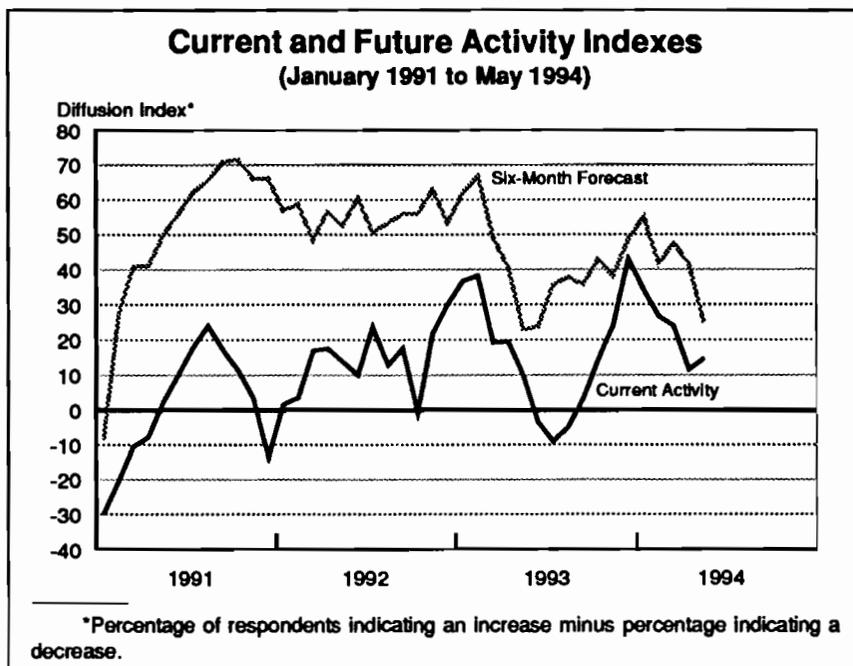
Economic Research Division

The manufacturing sector is continuing to grow, according to responses from this month's *Business Outlook Survey*. The survey's current indexes for new orders and shipments show continued strength, although the employment index suggests less improvement this month. The survey's future economic indicators, which summarize manufacturers' forecasts for the next six months, reflect somewhat diminished expectations about growth.

CURRENT CONDITIONS

The general activity diffusion index increased modestly from 11.6 in April to 14.8 this month. The increase in the index for May follows four consecutive months of gradual decline (see Chart). Although 51 percent of the polled manufacturers report no change in general business conditions in May, the percentage of firms indicating increases in activity (31 percent) outnumber those reporting declines (16 percent).

A sizable proportion of firms responding to the May survey reports increases in new orders this month (38 percent), and the survey's overall new orders index increased from 18.4 in April to 19.1 this month. Overall shipments are growing this month: 48 percent of respondents indicate increases, and just 12 percent report declines. The current shipments index rebounded from a reading of 25.7 in April to 36.7. Both delivery time and



unfilled orders indexes are near zero this month.

Despite continued growth, manufacturers do not report appreciable gains in employment this month. The largest percentage of firms (84 percent) report no change in the number of employees, and the percentage of firms reporting increases (9 percent) is only slightly greater than the percentage reporting cuts in employment (7 percent). The current employment index, which now is at 2.0, is lower than the 11.1 recorded in the previous month; however, manufacturers re-

port that the average workweek is longer this month. The current average workweek diffusion index has now remained positive for the sixth consecutive month.

PRICES

The diffusion index for current prices paid (prices for materials and other purchased inputs) declined from a level of 33.1 in April to 27.4 this month. A relatively large proportion of firms (31 percent) reports increases in input prices this month, compared with only 4 percent reporting declines. The cur-



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rent prices paid diffusion index has been relatively high since January of this year. For the fifth consecutive month the percentage of firms reporting higher prices for their manufactured goods (18 percent) outweighs the percentage reporting price declines (6 percent). The current prices received diffusion index, which now stands at 12.1, has remained above zero since the beginning of the year. The index had been negative in the previous seven months.

Over the next six months, many firms expect continued increases in the prices for their inputs. Almost 36 percent of those surveyed expect increases in the prices for purchased materials and other inputs, compared with only 5 percent expecting declines. The overall future prices paid diffusion index declined modestly from 38.8 in April to 30.7 this month. The future prices received index, however, jumped from a reading of 13.7 in April to 26.2 this month.

OUTLOOK

Most of the survey's future economic indicators fell markedly this month but continue to reflect an overall picture of continued growth for the next six months. The overall diffusion index for future economic activity fell from a level of 41.7 in April to 25.0 this month (see Chart). The percentage of firms expecting growth over the next six months (45 percent) continues to outnumber those expecting a decline in activity (20 percent).

Most of the survey's other future indexes showed a similar fall this month. For example, both the future orders and future shipments index declined this month. Nonetheless, those firms expecting increases in shipments and new orders over the next six months outnumber those expecting declines by about two to one. Unfilled orders are expected to remain steady, but delivery times are expected to shorten. Inventories are expected to rise.

With regard to manufacturing employment over the next six months, those polled are almost evenly divided between those expecting to add workers (22 percent) and those expecting to make employment cuts (21 percent). The survey's overall future employment index, now at 1.8, would appear to reflect continued reluctance to forecast additional permanent employees.

SUMMARY

Respondents to the *Business Outlook Survey* for May indicate that expansion of the manufacturing sector is continuing at a moderate pace, but manufacturing employment is not. Although the survey's indicators for future economic activity declined, firms expecting growth outweigh those expecting declines by more than two to one. Over a third of reporting firms expect rising input and output prices in the next six months.

BUSINESS OUTLOOK SURVEY Summary of Returns May 1994

Indicator	May vs. April				Six Months from Now vs. May			
	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?	16.4	50.7	31.2	14.8	20.1	34.2	45.1	25.0
Company Business Indicators								
New Orders	18.5	42.9	37.6	19.1	21.5	34.4	40.7	19.2
Shipments	11.6	38.7	48.4	36.7	19.1	32.4	44.6	25.4
Unfilled Orders	19.4	56.2	21.9	2.5	24.2	45.5	28.3	4.1
Delivery Time	12.5	70.1	16.0	3.5	26.8	62.7	8.0	-18.8
Inventories	19.0	51.2	28.3	9.3	38.2	36.3	24.9	-13.3
Prices Paid	3.9	64.7	31.3	27.4	4.8	59.7	35.5	30.7
Prices Received	6.3	75.2	18.4	12.1	11.2	49.2	37.4	26.2
Number of Employees	6.9	84.1	9.0	2.0	20.5	56.7	22.3	1.8
Average Employee Workweek	8.8	72.0	18.4	9.6	13.3	68.3	17.6	4.3
Capital Expenditures	—	—	—	—	5.0	42.3	35.1	30.1

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.