

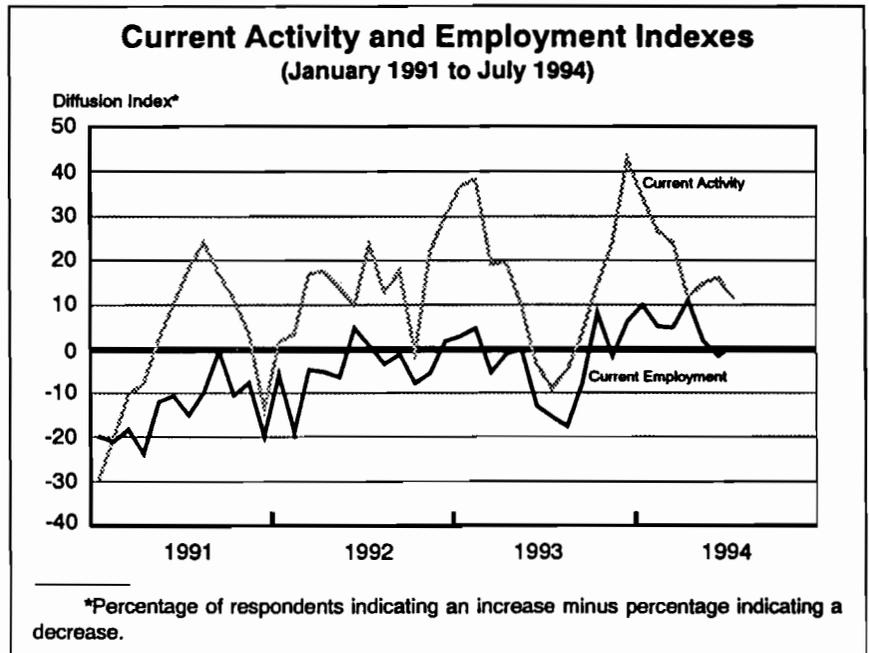
Economic Research Division

The manufacturing sector is continuing to expand, according to this month's *Business Outlook Survey*. Most current indicators remain positive, although at lower levels. Manufacturers expect the expansion to continue, but at a slower pace over the next six months. Despite signs of slower growth, manufacturers are reporting considerable upward pressure on input prices.

CURRENT CONDITIONS

Individual indicators of current economic activity suggest continued expansion of the manufacturing sector. The general activity diffusion index, while positive, declined from 16.1 in June to 11.3 this month. Over the past four months the index has fluctuated within a narrow range, but it is well below levels reached during the first quarter (see Chart). About 31 percent of the manufacturers polled report increases in new orders, and the current diffusion index for new orders declined slightly, from 14.8 in June to 13.3 this month. About 29 percent of those polled report a rise in shipments this month, although the current shipments index fell considerably, from 26.2 in June to 10.6 this month.

Indicative of weaker growth this month, the current unfilled orders



index turned negative, falling from 5.3 to -11.2. The current delivery time index, which now stands at 1.1, suggests steady delivery times. Inventories continue to fall: 32 percent of the manufacturers report a decline and only 22 percent report an increase.

Survey responses indicate that employment is holding steady. The current employment index increased marginally from a reading of -1.6 in June to 0.8 this month (see Chart). Over three-fourths of all manufac-

turers report no change in employment.

PRICES

A large percentage (41 percent) of manufacturing firms report increases in input prices again this month. The current prices paid diffusion index, which has remained at relatively high levels since the beginning of the year, increased from 28.7 in June to 36.4 this month. A smaller percentage of firms (25 percent) report price increases for their own manufactured



goods, and the current prices received index, at 15.8, is only slightly higher than in the previous month.

Firms' forecasts for the next six months show that about 60 percent of those polled expect price increases for inputs. Moreover, the future prices paid diffusion index jumped from 38.8 in June to 54.6 this month. About 41 percent of those polled expect price increases for their own manufactured goods over the next six months, and the future prices received index, now at 35.4, is slightly higher than in the previous month.

OUTLOOK

The July survey reflects cautious optimism regarding continuation of growth for the manufacturing sector. The overall diffusion index for future activity rebounded from a reading of 18.0 in June to 24.7 this month. Al-

though positive, the index is still considerably below levels recorded earlier in the year. Firms expecting growth over the next six months (44 percent) significantly outnumber those expecting declines (20 percent).

Indicators for future shipments and new orders remain virtually unchanged from the previous month, and manufacturing firms expecting increases in both shipments and new orders outnumber those expecting declines 2 to 1.

Possibly reflecting the expectation of weakening activity over the next six months, however, the diffusion indexes for future delivery times and unfilled orders are negative again this month—suggesting that those reporting expect shorter delivery times and a decline in unfilled orders. Firms remain evenly divided about plans for hiring. Almost 19

percent of those polled plan to hire additional workers by the end of the year, and 18 percent expect to make cuts. The future employment diffusion index, now at 1.2, is only slightly lower than in the previous month. The manufacturing firms surveyed are more optimistic about plans for capital expenditures: about 31 percent plan to increase capital spending; only 9 percent plan a reduction.

SUMMARY

The *Business Outlook Survey's* current economic indicators for July reflect continued growth for the manufacturing sector. Future indicators suggest that manufacturers expect growth will continue over the next six months, but it will be somewhat slower than in the recent past. Manufacturing firms are currently experiencing increases in input prices and expect more price increases in the near future.

BUSINESS OUTLOOK SURVEY Summary of Returns July 1994

Indicator	July vs. June				Six Months from Now vs. July			
	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?	10.6	63.2	21.9	11.3	19.6	36.1	44.3	24.7
Company Business Indicators								
New Orders	18.0	49.4	31.3	13.3	20.5	37.8	41.6	21.1
Shipments	18.7	51.4	29.3	10.6	21.5	33.6	43.4	21.9
Unfilled Orders	22.0	65.6	10.8	-11.2	21.9	58.5	16.9	-5.0
Delivery Time	10.9	75.7	12.0	1.1	15.9	73.2	6.5	-9.4
Inventories	32.3	44.1	21.9	-10.4	33.5	39.1	24.0	-9.5
Prices Paid	4.8	53.3	41.3	36.4	5.7	32.2	60.3	54.6
Prices Received	9.0	66.2	24.8	15.8	6.0	49.0	41.4	35.4
Number of Employees	10.7	77.3	11.5	0.8	17.8	61.5	18.9	1.2
Average Employee Workweek	14.1	74.0	8.6	-5.5	12.0	70.0	16.9	4.9
Capital Expenditures	—	—	—	—	8.9	39.8	30.7	21.9

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.