Economic Research Department

Activity in the region's manufacturing sector is slipping this month, according to the July *Business Outlook Survey*. Twenty-nine percent of the firms covered by the latest survey say business is moving down from last month while 16 percent report an upturn. This month's results, after a relatively level second quarter, suggest a return to the pattern of monthly declines that began in July of last year.

With the slower overall pace of business this month, local firms are entering a second year of soft activity. Although they are stepping up shipments from last month, other measures of manufacturing activity indicate that area firms are operating at less than full capacity. They are working down order backlogs even though they are receiving new orders at a virtually steady pace; and, although most survey participants are maintaining employment levels, one-quarter are reducing payrolls and nearly one-third are cutting working hours. A reported decrease in delivery times again this month is another sign of slackness in the manufacturing sector.

Looking to the future, forecasts are varied but the balance of opinion among survey participants is that business will stabilize at the current level over the next six months. Respondents are nearly equally divided among those predicting improvement, those anticipating continued decline, and those who expect steady activity between now and January of next year. On balance, area manufacturers forecast a constant rate of orders and shipments through the beginning of next year, and they expect a further decline in backlogs and shorter delivery times. Consistent with this scenario of slack demand, area firms plan further reductions in payrolls and working hours this year.

Industrial prices in the region remain fairly stable. Two-thirds of the firms polled for the July survey say both input costs and output prices are unchanged from June. Looking ahead, however, around one-third expect price increases for both the goods they purchase and their own products in the next six months. Nevertheless, survey participants' expectations of price increases continue to recede

With this issue, we begin reporting the diffusion index for each indicator of manufacturing activity. (See table on back.) The index is the difference between the percentage of respondents reporting an increase and the percentage reporting a decrease.

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from their peak approximately two years ago.

In summary, industrial activity in the region is slipping once again in July, after three relatively stable months. Area firms continue to scale back employment this month, and they plan further cuts between now and next January despite their expectations that business will stabilize in the period.

BUSINESS OUTLOOK SURVEY
Summary of Returns
July 1990

Indicator	July vs. June				Six Months from Now vs. June			
	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?	28.4	55.2	15.8	-12.6	28.5	35.9	30.2	1.7
Company Business Indicators								
New Orders	30.8	39.1	27.4	-3.4	29.9	35.0	31.6	1.6
Shipments	16.5	50.2	31.0	14.5	30.9	41.5	26.6	-4.2
Unfilled Orders	30.9	51.3	15.0	-15.9	34.5	47.4	12.4	-22.1
Delivery Time	23.4	64.6	8.7	-14.6	32.9	58.4	6.4	-26.5
Inventories	32.9	38.7	27.0	-5.9	38.8	40.3	20.9	-18.0
Prices Paid	3.5	68.5	28.1	24.6	7.8	57.1	34.0	26.1
Prices Received	19.8	67.5	11.1	-8.6	18.5	48.3	31.2	12.7
Number of Employees	24.9	62.7	10.6	-14.3	33.0	55.4	9.5	-23.4
Average Employee Workweek	32.0	57.9	9.0	-23.0	26.4	59.5	8.9	-17.5
Capital Expenditures	—	—	—	—	24.2	35.0	29.4	5.2

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.