

Economic Research Department

Business conditions in the local industrial sector are still deteriorating in March, but signs of improvement are becoming clearer, according to this month's *Business Outlook Survey*.

CURRENT CONDITIONS

The drop in overall area manufacturing activity that began in 1989 appears to be leveling off. Although the overall Index of Current Activity is still negative (-8.9 percent), compared with February more respondents are reporting improved business and fewer are reporting continued slowing. In line with this improved assessment of overall activity, both new orders and shipments have held steady after dropping continuously since mid-1990. However, order backlogs are still shrinking and firms continue to tighten up on inventories.

THE OUTLOOK

The March survey reflects another sharp uptick in the outlook for area manufacturing. For the first time since 1986 more than half of the plant managers polled say they expect business to improve over the next two quarters. At the same time, only about 15 percent of the respondents say they expect the slump to deepen, about the same as in February. As

a result, the Index of Future Activity now stands at 41.6, the highest it has been in six years.

Manufacturers are forecasting a bulge in new orders between now and September. They also expect shipments to keep pace, so the lower order backlogs and shorter delivery times that have resulted from the current slowdown will remain the rule for some time. Manufacturers responding to the March *BOS* also say they will continue to hold the line on inventories.

Because of the improving outlook, respondents appear to be taking a somewhat less cautious view toward capital spending. At about one-third of the firms contacted, spending for plant and equipment should be going up over the next two quarters.

EMPLOYMENT

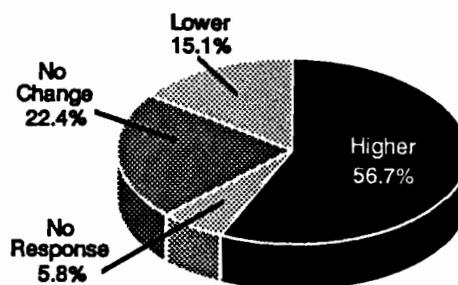
Local industrial firms, on net, are still making some cuts in working hours and number of employees. This trend seems to be losing steam as the outlook improves, however, and the

employment situation may stabilize by September, according to the survey. Two-thirds of the respondents to the March survey say they are now holding work forces steady. Looking ahead, a little over half say they will continue at current employment levels for the next six months, and the proportion expecting to cut workers continues to drop (see chart on next page).

PRICES

Industrial prices remain very soft. Two-thirds of the respondents say they are holding the line on the prices of the goods they sell, while about one-fifth are accepting lower prices. Prices of raw materials are reported

Where is Business Activity Going over the Next six Months?



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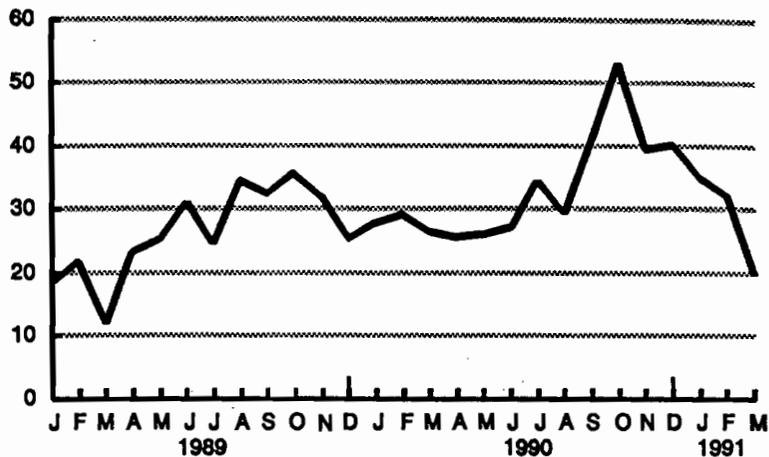
flat at about three-quarters of the firms surveyed in March. For the future, prices are likely to firm somewhat as business improves. About 40 percent of the respondents expect to be paying more for inputs by September, and just over 30 percent are planning to raise the prices of their own products.

SUMMARY

Although the dip in business is not yet over for local industry, the decline is moderating and the outlook is improving sharply. Manufacturers are anticipating a rebound in orders and shipments and employment is expected to end its slide. Industrial prices, which remain soft for now, may rise as business picks up.

Improvement on the Employment Front

The percentage of respondents with plans to trim payrolls has been falling since October and is now at its lowest point in two years.



BUSINESS OUTLOOK SURVEY
Summary of Returns
 March 1991

Indicator	March vs. February				Six Months from Now vs. March			
	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?	26.5	51.4	17.6	-8.9	15.1	22.4	56.7	41.6
Company Business Indicators								
New Orders	25.1	45.8	29.0	3.9	18.4	23.1	57.7	39.3
Shipments	26.8	45.4	26.8	0.0	17.6	19.2	61.4	43.9
Unfilled Orders	33.8	48.4	15.4	-18.4	24.9	42.8	24.4	-0.5
Delivery Time	18.7	76.7	3.8	-14.9	17.8	64.6	11.9	-5.8
Inventories	38.9	43.2	17.9	-21.0	31.4	43.3	20.0	-11.3
Prices Paid	11.1	72.2	16.7	5.5	10.3	48.0	39.7	29.4
Prices Received	21.3	67.9	10.7	-10.6	9.0	58.6	30.6	21.6
Number of Employees	28.0	65.1	7.0	-21.0	19.9	56.4	23.7	3.8
Average Employee Workweek	30.9	61.7	3.9	-27.0	15.6	62.8	21.2	5.6
Capital Expenditures	—	—	—	—	17.6	37.9	33.0	15.4

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