B. Turnbull

Business Outlook Survey

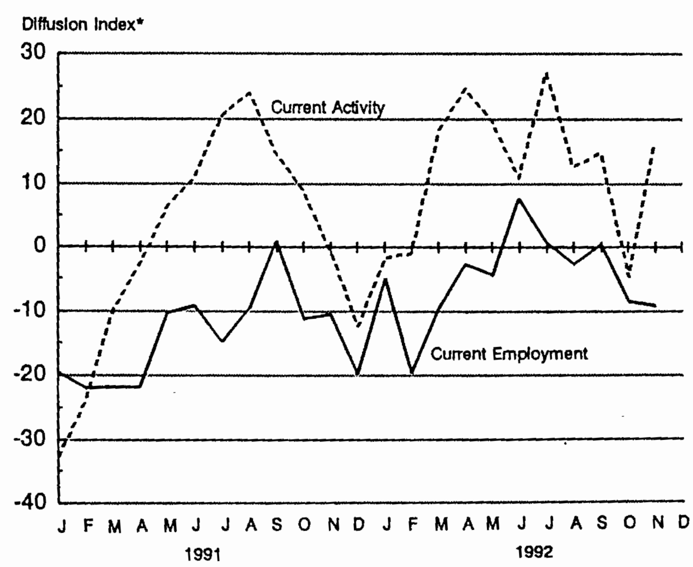
November 1992

Economic Research Division

Respondents to the *Business Outlook Survey* report improved manufacturing conditions this month. The survey's broadest measure of manufacturing activity, the diffusion index of general business activity, rebounded considerably this month, following a one-month drop into the negative range. Those surveyed report, on balance, significant improvements in the levels of current shipments and new orders. Manufacturers continue to report overall declines in employment, however, and many firms are experiencing declining prices. Most indicators for future activity show some improvement this month.

General Activity And Employment Indexes

(January 1991 to November 1992)



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

CURRENT CONDITIONS

The general activity diffusion index increased from a level of -4.7 in October to 16.6 this month. With the exception of the negative reading in October, the index has remained positive since February. Although 59 percent of those surveyed report no change in activity from the previous month, the percentage of firms reporting increases in activity (28 percent) outnumbers those reporting declines (11 percent).

Individual indicators of manufacturing activity also suggest an improvement in conditions this month. The shipments diffusion index, which now stands at 24.2, increased from an October level of 3.0. About 38 percent of those responding to the survey report an increase in shipments this month, compared with just 14 percent reporting a decline. New orders show a similar improvement this month: about 36 percent of the manufacturers polled report increases, compared with 15 percent reporting one-month declines. The number of unfilled orders remains steady, and delivery times are unchanged for the month.

Respondents to the survey, however, continue to report declines in employment. Although 67 percent of the manufacturers report no change in the number of workers for the month, the percentage reporting cuts in their work force (21 percent) outweighs those reporting increases (11 percent). The employment diffusion index, which now stands at -9.1, has shown no improvement over the last few months (see chart). Although the index has tended to move in parallel with manufacturing activity, it has generally remained negative for the past two years.

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Ten Independence Mall, Philadelphia, PA 19106-1574, (215) 574-6448

PRICES

Survey responses reflect continued downward pressure on prices. For the third consecutive month, the diffusion index for prices received by manufacturers has recorded a negative value. The index, which now stands at -11.8, has been negative in three of the last four months and is near its lowest point in the 24-year history of this series. About 19 percent of those polled report declines in their prices for the month, compared with 7 percent reporting price increases. Almost 74 percent of those polled report no change in their prices.

Input prices display a similar pattern, with the number of firms reporting price declines (10 percent) narrowly outnumbering those reporting price increases (5 percent). Almost 85 percent of those reporting indicate no change in input prices for the month. The input price diffusion index, which now stands at -4.1, has remained negative for two consecutive months and is at its lowest level since the beginning of the series in 1968.

OUTLOOK

Most indicators of future activity show signs of improvement this month. The diffusion index for future activity increased from a level of 60.9 in October to 67.3 this month and has now increased in four consecutive months. About 70 percent of those manufacturers polled expect conditions to improve over the next six months, while only 3 percent expect conditions to deteriorate. Similar signs of optimism are expressed for both shipments and new orders over the next six months. About 30 percent of the firms expect unfilled orders to increase, and delivery times, on balance, are expected to lengthen.

Reporting firms also expect to increase the number of workers over the next six months. Nearly 26 percent indicate that employment levels will increase, compared with just 9 percent reporting that employment levels will decline. In addition, the hours of the current work force are expected to increase over the next six months: 28 percent expect increases in their average workweek, compared with just 1 percent expecting a decline.

SUMMARY

Business Outlook Survey respondents indicate that conditions have improved this month. A significant number of firms report increases in both new orders and shipments, and levels for both are forecast to increase over the next six months. Manufacturing employment remains weak, with the number of firms reporting declines in their work forces narrowly outnumbering those reporting increases. Manufacturers are, however, optimistic about employment growth over the next six months. Although most reporters indicate no change in their input and output prices, a larger percentage of firms are reporting declining prices than are reporting increases.

BUSINESS OUTLOOK SURVEY
Summary of Returns
November 1992

Indicator	November vs. October				Six Months from Now vs. November			
	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?	11.4	58.9	28.0	16.6	2.8	24.6	70.2	67.3
Company Business Indicators								
New Orders	15.4	47.7	35.5	20.1	0.8	27.6	70.1	69.3
Shipments	14.1	47.6	38.3	24.2	2.4	27.6	69.4	66.9
Unfilled Orders	22.1	49.9	20.6	-1.5	3.0	60.7	29.8	26.9
Delivery Time	10.1	74.2	12.2	2.1	5.1	78.3	12.8	7.7
Inventories	27.5	48.0	21.2	-6.4	30.6	40.7	24.5	-6.1
Prices Paid	9.5	84.7	5.4	-4.1	3.8	52.4	39.3	35.6
Prices Received	18.9	74.0	7.1	-11.8	2.1	72.2	23.6	21.5
Number of Employees	20.5	66.7	11.4	-9.1	9.0	62.0	25.8	16.8
Average Employee Workweek	15.6	70.2	14.2	-1.5	1.2	69.1	28.4	27.2
Capital Expenditures	—	—	—	—	9.3	44.8	29.0	19.7

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