

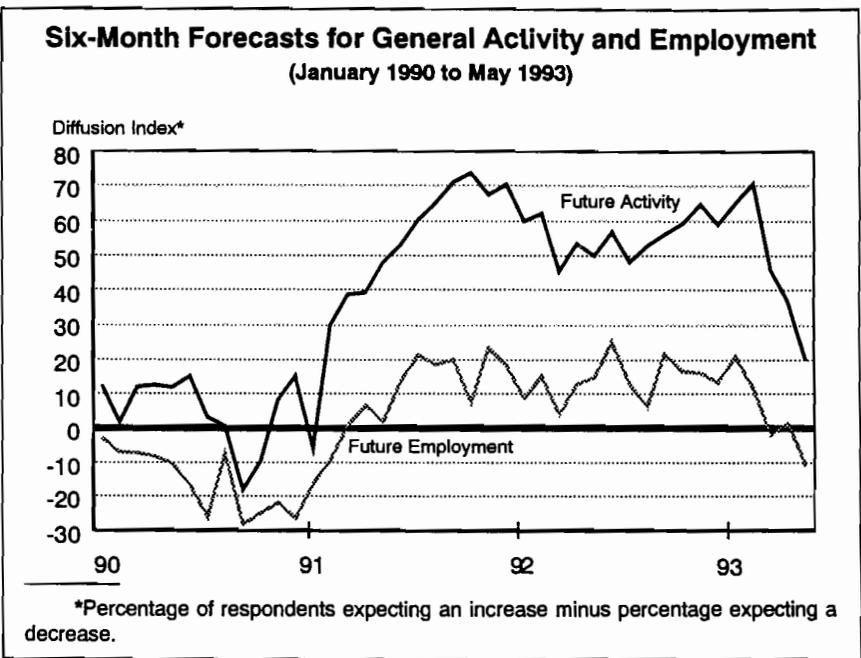
Economic Research Division

The region's manufacturing sector is growing, but at a slower pace this month, according to the *Business Outlook Survey*. While most of the survey's indicators remain positive, current indicators have been moving lower in recent months. Firms still expect the manufacturing sector to expand, but they are less optimistic about future growth. Future economic indicators continued to deteriorate this month, with some indicators falling to their lowest levels in more than two years.

CURRENT CONDITIONS

The survey's general activity diffusion index declined from a level of 24.6 in April to 11.3 this month. The decline in the index suggests that growth is continuing, but at a slower pace than in the previous month. The index is considerably lower than the levels recorded in January and February and is now at its lowest level since October of last year.

The difference between those firms reporting increases and those reporting decreases also narrowed for other current economic indicators this month. The shipments index declined marginally from a reading of 21.9 in April to 19.5 this month. About 36 percent of those surveyed report increases in shipments this month, while 17 percent report declines. The index for new orders also declined from a level of 18.6 in April to 11.2 this month. Only 29 percent of firms report increases in



new orders this month, compared with 38 percent reporting increases in April and nearly 48 percent for January and February of this year.

The diffusion index for unfilled orders moved into the negative range this month, declining from a level of 5.9 in April to -3.4. About 51 percent of the manufacturing firms report no change in unfilled orders, 24 percent report a decline, and 21 percent report an increase. Inventories are, on balance, lower this month: 28 percent of the firms report declines, compared with 16 percent reporting increases.

Current employment indicators for this month's survey suggest no overall change in the number of factory workers and average hours worked. Of the firms polled, 64 percent report no change in the number of workers compared with the previous month, and the percentage that report hiring additional workers (18 percent) is nearly matched by the percentage trimming their work force (16 percent).

PRICES

Manufactured goods prices remain stable, despite reported increases in



the costs of inputs. The diffusion index for prices received, which has remained slightly positive for the last four months, declined to 1.2 this month from a 7.2 reading in April. A large percentage of firms (79 percent) report no change in their own prices this month, and the percentage of firms reporting falling prices (10 percent) nearly offsets the percentage reporting price increases (11 percent). The index for prices paid by manufacturers, however, increased from a reading of 13.8 in April to 19.9 this month—nearly 24 percent of the firms responding to the survey indicate that their input prices were higher than in the previous survey month, and only 4 percent report lower input prices.

Along with rising input costs, a sizable percentage of firms expect higher prices for their goods in the next six months. The overall diffusion index for future prices received, which now stands at 27.2, has remained near its current level for the past eight months.

OUTLOOK

In their six-month forecast, survey respondents indicate that optimism about future manufacturing growth is deteriorating. For the third consecutive month the future general activity index has declined (see Chart). The index now stands at 19.9, declining from 36.8 in April and 70.7 in February. The index is now at its lowest level since January 1991.

Although the other indicators of future activity remain positive, they also edged lower this month. Diffusion indexes for future new orders and shipments paralleled the decline in the future general activity index. Polled firms indicate that the current level of unfilled orders will remain the same over the next six months, and delivery times are expected to be unchanged.

With regard to employment, the largest percentage of firms (55 percent) anticipates no change for current levels. Only 16 percent of those reporting

plan to hire additional workers, and 27 percent plan to make cuts. The future employment index is now negative, after remaining positive for most of the past two years (see Chart).

SUMMARY

Responses from this month's *Business Outlook Survey* suggest that the region's manufacturing growth is slowing. Although the percentage of firms reporting growth in new orders and shipments exceeds the percentage reporting declines, the difference has narrowed relative to the previous month and earlier in the year. Employment conditions are reported unchanged this month, and manufacturing goods prices are stable. Although manufacturing growth is expected to continue over the next six months, survey responses indicate a significant decline in optimism over recent months. Manufacturing firms show no signs of increasing employment in the near future.

BUSINESS OUTLOOK SURVEY Summary of Returns May 1993

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?	19.1	50.1	30.4	11.3	21.9	33.5	41.8	19.9
Company Business Indicators								
New Orders	18.0	52.8	29.2	11.2	23.0	39.5	36.7	13.8
Shipments	16.7	47.2	36.2	19.5	24.1	37.1	36.4	12.3
Unfilled Orders	24.3	50.6	20.9	-3.4	24.8	51.2	21.6	-3.2
Delivery Time	15.0	73.7	9.2	-5.7	18.5	65.6	14.0	-4.6
Inventories	28.0	55.7	16.0	-12.0	35.3	48.3	15.5	-19.9
Prices Paid	4.0	71.8	23.9	19.9	0.1	53.6	45.7	45.6
Prices Received	10.1	78.6	11.3	1.2	7.0	58.8	34.2	27.2
Number of Employees	15.7	64.0	18.3	2.6	27.2	54.8	16.0	-11.2
Average Employee Workweek	19.2	61.3	18.5	-0.7	19.7	59.5	19.1	-0.5
Capital Expenditures	—	—	—	—	12.3	40.2	30.4	18.1

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.