



# Business Outlook Survey

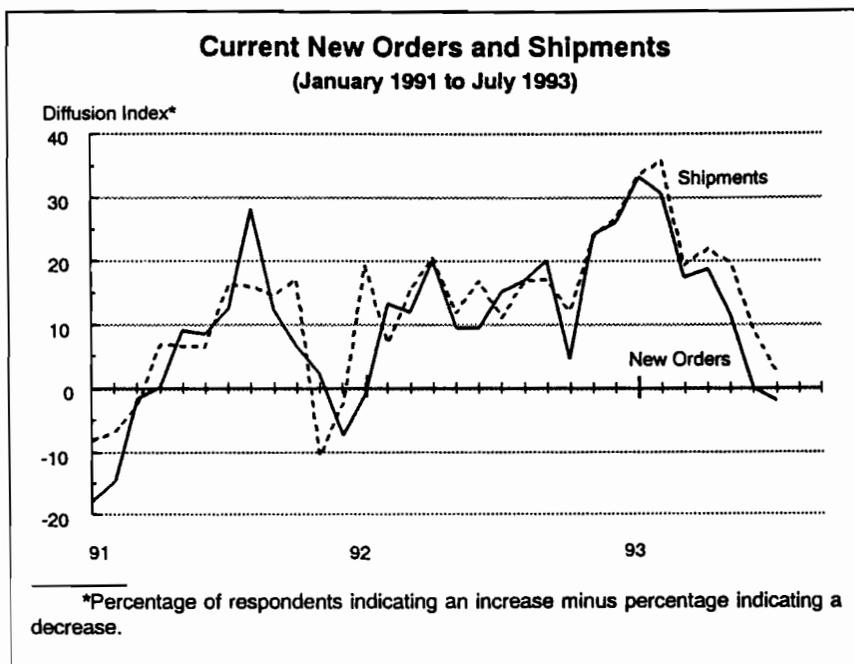
July 1993

## Economic Research Division

Manufacturers responding to the July *Business Outlook Survey* report weakening activity again this month. For the second consecutive month, the survey's main index of overall activity is negative. Those surveyed report manufacturing shipments and new orders are virtually flat compared with the previous month. The manufacturers also indicate continued declines in manufacturing employment and the average workweek for the month. While respondents expect some improvement in the next six months, most future indicators remain below levels recorded earlier in the year.

### CURRENT CONDITIONS

The survey's general activity diffusion index declined from a level of -6.5 to -10.3 this month. About 58 percent of those manufacturers polled indicate no change in activity from the previous month, but for the second consecutive month the proportion indicating that activity declined (23 percent) exceeded the proportion indicating an increase (13 percent). The survey's other current indicators suggest little growth in the manufacturing sector. Both the new orders and shipments diffusion index remain near zero in July (see Chart). Also indicative of weakness, both unfilled orders and delivery time indexes have re-



mained negative now for three consecutive months.

Surveyed firms report continued employment contraction this month. About 74 percent of the manufacturers report no change in employment, but the percentage of firms reporting employment declines (22 percent) significantly outnumbers the percentage reporting increases (4 percent). The current employment diffusion index, which now stands at -17.7, is at its lowest level in 18 months. Firms also

report that the average workweek is declining this month.

### PRICES

Manufacturers report that prices received for their products remain steady despite increases in prices paid for inputs. The diffusion index for current prices received, which now stands at 1.2, increased slightly from a reading of -1.0 in June. Nearly 75 percent of those firms surveyed report no change in their prices, while the percentage



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reporting decreases (12 percent) nearly offsets those reporting increases (13 percent). Sixty-nine percent of those polled report no change in the prices of their inputs but the percentage of firms reporting increases (25 percent) is significantly higher than the percentage reporting reductions (5 percent).

Recent slowing of activity has been associated with moderating expectations of future price increases. Although the diffusion index for future prices received increased from 11.1 to 16.3 this month, the level of the index over the past two months is lower than the previous six months (the average level of the index from December through May was 28.7).

#### OUTLOOK

Looking ahead six months, only 15 percent of those surveyed expect a deterioration in activity from current levels and 47 percent expect improve-

ment. The general activity index for future activity increased from a level of 20.2 in June to 32.1 this month. Future indicators for new orders and shipments showed a similar rise for the month. While respondents do expect improvement in the next six months, these indicators are well below the levels recorded earlier in the year.

With regard to their hiring plans, the proportion of firms planning to make cuts (25 percent) outnumbers those planning to add workers (14 percent). The future employment diffusion index, which now stands at -10.9, has now been negative in four of the last five months, following a 24-month period in which the index remained positive. On balance, firms are expecting a decline in the average workweek over the next six months.

The recent weakening in manufacturing activity and the relatively modest outlook has apparently af-

ected plans for capital expenditures. The future capital expenditures index, which now has a reading of -9.8, is the first negative value of the index in over two years and is near the lowest recorded over the 25-year history of the series.

#### SUMMARY

The manufacturers polled for the July *Business Outlook Survey* report deteriorating activity and indicate new orders and shipments are level with the previous month. Firms continue to make reductions in the number of production workers and also report declines in the average workweek. Although only about 15 percent of those polled expect worsening conditions over the next six months, the recent weakening in demand is negatively influencing plans for employment and capital expenditures.

### BUSINESS OUTLOOK SURVEY Summary of Returns July 1993

Indicator	July vs. June				Six Months from Now vs. July			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
<b>General Business Conditions</b>								
What is your evaluation of the level of general business activity?	23.3	58.1	13.0	-10.3	14.6	35.8	46.8	32.1
<b>Company Business Indicators</b>								
New Orders	18.6	64.7	16.7	-2.0	15.4	39.0	44.1	28.7
Shipments	24.9	47.6	27.5	2.6	11.7	38.8	48.6	36.9
Unfilled Orders	21.7	60.6	17.7	-4.0	14.5	67.2	15.6	1.1
Delivery Time	18.5	70.8	8.1	-10.4	15.8	73.9	7.7	-8.1
Inventories	24.6	52.2	23.2	-1.4	31.9	48.8	16.4	-15.5
Prices Paid	4.9	69.2	25.2	20.3	4.0	49.0	42.7	38.7
Prices Received	11.7	75.4	12.9	1.2	10.1	60.9	26.3	16.3
Number of Employees	21.9	73.5	4.2	-17.7	24.7	59.2	13.8	-10.9
Average Employee Workweek	20.1	70.0	9.1	-11.1	17.1	65.1	11.6	-5.6
Capital Expenditures	—	—	—	—	19.8	45.8	10.0	-9.8

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.