

# Business Outlook

## Survey

AUGUST 1993

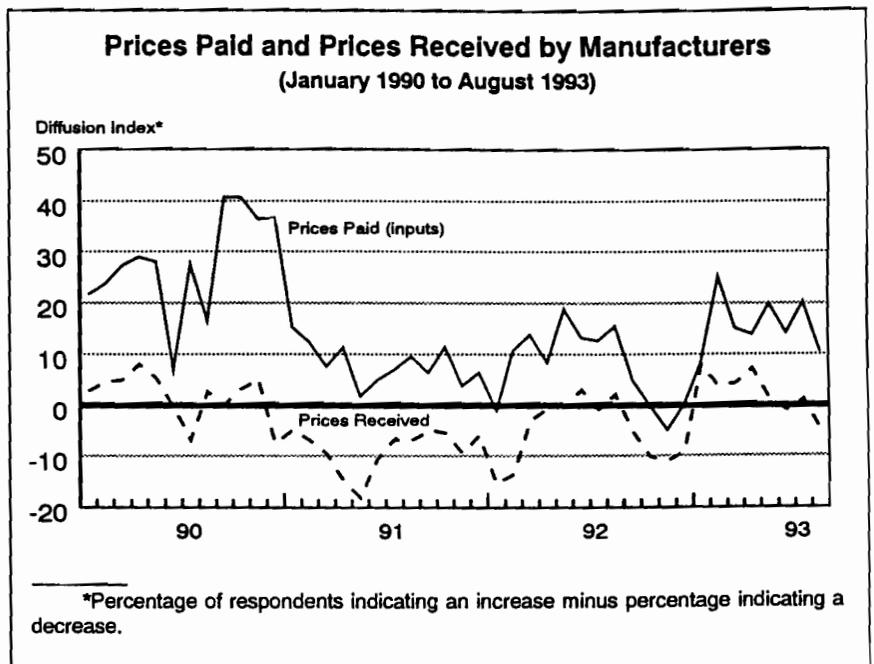
## Economic Research Division

A summer slump is continuing in the manufacturing sector, according to the manufacturers responding to the August *Business Outlook Survey*. The general activity diffusion index remains negative this month, and for the first time in 20 months, the survey's current shipments index has fallen below zero. Those responding to the survey report that new orders are virtually flat. Weakness is also reflected in reported declines in employment and in the average workweek this month. Despite continued weakness, however, manufacturers' expectations of future activity have improved somewhat in August.

### CURRENT CONDITIONS

The diffusion index for general business activity increased from -10.3 in July to -8.7 this month. The index, which has now remained negative for three consecutive months, indicates that manufacturing growth has weakened relative to the pace experienced earlier in the year. Only 14 percent of those polled indicate an increase in activity this month, compared with 23 percent who report a decrease. The largest percentage (63 percent) reports no change from the previous month.

Individual indexes of manufacturing activity are indicative of weakened demand and production. New orders



are flat this month and have remained so for the past three months. The index for current shipments slipped below zero this month, to -5.2, the first negative reading since December 1991. Other manufacturing indexes continue to reflect a decline in demand: unfilled orders are declining again this month, and delivery times are shorter.

This month's current employment indexes indicate a decline in demand for labor in the region's manufacturing

sector. Only 1 percent of the firms polled report increases in the number of workers, compared with 19 percent reporting declines. The current employment diffusion index, which is virtually unchanged from the previous month, stands at -17.8, the lowest level in 18 months. Nearly 18 percent of the polled firms also report declines in the average workweek this month, compared with 8 percent reporting increases.



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## PRICES

More firms are reporting price reductions for their goods than are reporting increases, reflecting weakened manufacturing activity. Although 76 percent of the firms report no change in their manufactured goods prices this month, 13 percent of those responding to the survey report price decreases, and 8 percent report price increases. The current prices received diffusion index, now at -5.1, has been negative in two of the last three months. The August reading is the lowest since December (see Chart). On the input price side, the survey's current prices paid index declined markedly from 20.3 in July to 10.4 this month.

Despite current downward pressure on prices, 29 percent of firms expect price increases in the next six months, compared with just 6 percent that expect price declines. Expectations for future price increases may be tempered somewhat by recent weakening in manufacturing conditions, however.

Although the diffusion index for future prices received has increased during the past two months and now stands at 23.4, the index remains below levels recorded in the first five months of this year.

## OUTLOOK

Most indicators of future activity show slight improvement this month but remain well below levels recorded earlier in the year. The survey's broadest measure of future conditions, the diffusion index for future activity, increased from 32.1 in July to 37.1 this month. Nearly 47 percent of those polled expect increased activity in the next six months, compared with just 9 percent expecting a downturn. The future new orders index showed marked improvement, increasing from 28.7 in July to 39.6 this month. The level of unfilled orders is expected to remain steady, however, and over three-fourths of firms expect delivery times to remain the same.

The index for future employment

shows improvement this month, increasing from -10.9 in July to 2.0 this month (the index has been negative for the previous three months). Although nearly 65 percent of firms expect no increases in the number of factory workers, the proportion planning increases (18 percent) is nearly matched by the proportion planning reductions (16 percent).

## SUMMARY

Respondents to the August *Business Outlook Survey* report deteriorating conditions again this month. New orders remain flat, and, on balance, shipments have dipped this month. Work force reductions are continuing, and almost no firms report increases in employment. On the positive side, the survey's future economic indicators show improvement this month, and the proportion of firms expecting activity increases over the next six months outnumbers those expecting declines by 5 to 1.

## BUSINESS OUTLOOK SURVEY Summary of Returns August 1993

Indicator	August vs. July				Six Months from Now vs. August			
	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?	22.7	62.9	14.0	-8.7	9.4	42.2	46.5	37.1
<b>Company Business Indicators</b>								
New Orders	26.1	47.8	26.1	0.1	12.7	34.8	52.3	39.6
Shipments	23.6	57.9	18.5	-5.2	11.4	40.6	48.0	36.7
Unfilled Orders	24.6	63.4	12.0	-12.6	15.8	63.8	19.4	3.7
Delivery Time	19.2	74.1	5.4	-13.8	13.3	77.6	8.0	-5.3
Inventories	20.3	62.0	17.7	-2.6	27.2	57.1	15.8	-11.4
Prices Paid	4.3	80.9	14.8	10.4	7.7	38.8	53.5	45.8
Prices Received	12.6	75.6	7.5	-5.1	5.6	64.6	29.0	23.4
Number of Employees	19.2	78.2	1.4	-17.8	15.9	64.5	17.9	2.0
Average Employee Workweek	17.7	74.2	8.1	-9.6	10.0	66.0	20.3	10.3
Capital Expenditures	—	—	—	—	10.3	53.2	22.9	12.6

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.