

## Economic Research Division

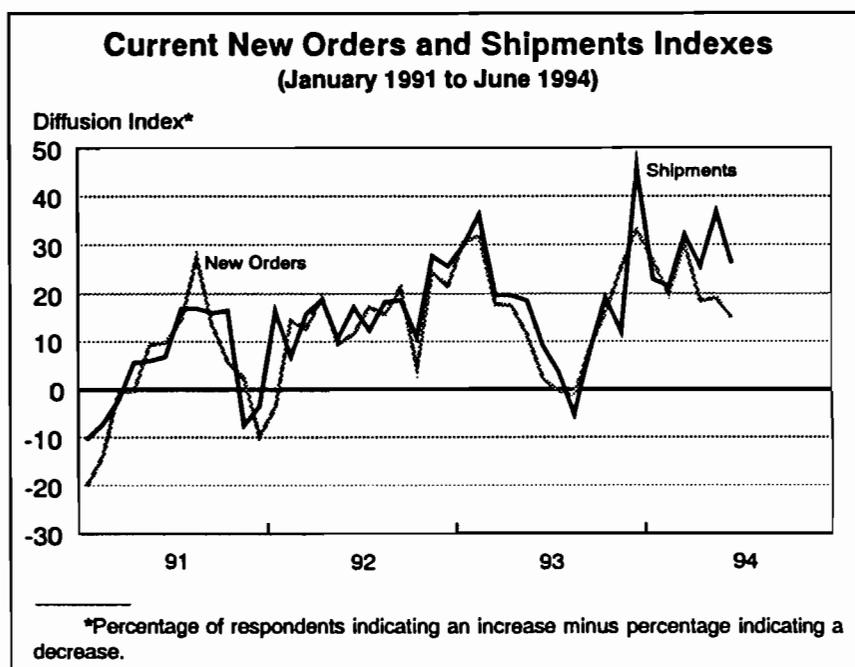
The expansion in the manufacturing sector is continuing, according to this month's *Business Outlook Survey*. While most of the survey's current indicators remain positive, some have been moving lower in recent months. Firms generally expect economic growth for the manufacturing sector to continue, but most of the survey's future economic indicators continued to decline this month.

### CURRENT CONDITIONS

The diffusion index for overall manufacturing activity increased modestly from a level of 14.8 in May to 16.1 this month. The index has edged up over the past two months but remains below first-quarter levels.

Changes in individual indicators of current economic activity suggest growth is continuing, but at a slower pace (see Chart). The diffusion index for current new orders declined slightly from a level of 19.1 in May to 14.8 this month. About 28 percent of the surveyed firms report increases in new orders this month; in contrast, 38 percent reported increases the previous month. The current shipments index, which now stands at 26.2, declined from 36.7 in the previous month but is near its average level since the beginning of the year.

Current indicators for unfilled orders and delivery times remain virtual-



ly unchanged from last month. Delivery times are, on balance, steady this month, and the percentage of firms reporting increases in unfilled orders (22 percent) only narrowly outnumber those reporting decreases (17 percent). The diffusion index for inventories, which stood at 9.3 in May, dipped below zero this month: to -6.8.

The survey's employment index also offers some evidence of slower growth. Although about 82 percent of the firms report no change in employ-

ment this month, the current employment diffusion index dropped below zero for the first time in seven months. The average workweek is steady this month.

### PRICES

A sizable proportion of manufacturing firms (34 percent) report increases in the prices paid for materials and other purchased inputs. The diffusion index for current prices paid, which now stands at 28.7, has remained near



its current level for the past three months.

While many firms report rising input prices, a smaller proportion (14 percent) indicate price increases for their own manufactured goods. The prices received diffusion index declined slightly from 12.1 in May to 11.0 this month. The index has remained positive since January, but it had been negative over the previous seven months.

With regard to their six-month price forecasts, 43 percent of those surveyed expect price increases for their inputs and 39 percent expect price increases for their own manufactured goods. The diffusion indexes for future prices paid and future prices received, which now stand at 38.8 and 30.4, respectively, are only slightly higher than in the previous month.

## OUTLOOK

With regard to their forecasts for the next six months, manufacturers expect growth to continue, but the overall balance of opinion has declined in recent months. The diffusion index for future activity declined again this month, from 25.0 in May to 18.0, and has declined markedly the past two months. Currently about 37 percent of the manufacturers polled expect growth to continue over the next six months while 19 percent expect a decline.

Despite a decline in the overall future activity index, about 44 percent of firms expect increases in new orders and shipments over the next six months. Unfilled orders are expected to fall and delivery times are expected to shorten. On balance, inventories are expected to be reduced. With

regard to employment, firms are almost evenly divided between those expecting to add workers (24 percent) and those expecting to make cuts (22 percent).

## SUMMARY

The June *Business Outlook Survey* indicates a continued expansion of manufacturing activity, although fewer firms report increases in new orders and shipments this month. Employment levels are also reported to be steady. Although the survey's future indicators fell again this month, a sizable share of reporting manufacturers still anticipate a rise in new orders and shipments over the next six months. Firms are almost evenly divided, however, regarding hiring plans for the next six months.

## BUSINESS OUTLOOK SURVEY Summary of Returns June 1994

Indicator	June vs. May				Six Months from Now vs. June			
	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?	11.9	57.8	28.0	16.1	19.3	36.8	37.4	18.0
<b>Company Business Indicators</b>								
New Orders	13.2	57.0	28.1	14.8	19.6	35.2	44.9	25.2
Shipments	7.0	57.4	33.1	26.2	16.4	35.3	43.8	27.4
Unfilled Orders	16.7	59.4	22.0	5.3	24.7	56.4	13.3	-11.4
Delivery Time	11.0	77.4	11.4	0.4	21.0	66.0	10.9	-10.1
Inventories	26.8	52.8	20.0	-6.8	32.8	49.4	14.4	-18.4
Prices Paid	4.7	61.4	33.5	28.7	4.2	49.8	43.0	38.8
Prices Received	3.1	82.9	14.0	11.0	8.3	51.5	38.7	30.4
Number of Employees	9.9	81.8	8.3	-1.6	22.2	51.0	23.7	1.5
Average Employee Workweek	16.8	66.4	16.4	-0.4	16.0	65.2	13.8	-2.2
Capital Expenditures	—	—	—	—	4.2	46.8	25.2	21.0

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.