



BUSINESS OUTLOOK SURVEY

July 2001

The region's manufacturing sector remains weak. Firms continue to report declines in overall activity, shipments, employment, and average work hours this month, but the declines are not as large as in the first quarter of the year. Expectations for growth over the next six months remain high, although not as high as in the previous month.

Manufacturing Declines Continue

The diffusion index of current activity declined from -3.7 in June to -12.2 this month. The percentage of firms reporting decreases in business activity (29 percent) is greater than the percentage reporting increases (17 percent) for the eighth consecutive month. The general activity index, although indicating overall declines, is above its readings in the first three months of this year. Although still negative, the current new orders index improved slightly this month, increasing from -9.3 in June to -5.7. The current shipments index fell notably this month, decreasing from -0.8 in June to -20.2. Continued negative readings for unfilled orders and delivery times confirm the weakness in the manufacturing sector. The current inventories index, at -18.9, was little changed from its reading of -19.6 in June. Responses to a special question about inventory adjustment plans suggest that current inventory levels remain too high for a majority of firms and further downward

Table
Special Question (July 2001)

Choose the statement that best characterizes your inventory situation.

Inventories are:	Percentage
about the right level for current economic conditions	40%
too high and are expected to increase in the third quarter	6%
too high and are expected to decrease in the third quarter	52%
too low and are expected to increase in the third quarter	2%
too low and are expected to decrease in the third quarter	0%
Total	100%

adjustment will take place over the next three months (see Table).

Employment indicators have generally mirrored the pattern of other current indicators. This month the current employment index improved from -14.3 in June to -7.8. Although nearly 68 percent of firms reported steady employment, the percentage of firms reporting decreases in employment (20 percent) was greater than the percentage reporting increases (12 percent) for the ninth consecutive month. Continued weakness is evident in responses concerning the average workweek. The average workweek index, at -16.0, is essentially unchanged from June.

Lower Industrial Prices Reported

Survey indicators suggest diminished pressures for both input prices and prices of the firms' products this month.

Following a notable increase last month, the diffusion index for prices paid fell from 17.8 in June to -4.9 this month and is now at its lowest reading since February 1999. The percentage of firms reporting declines in prices for purchased inputs (15 percent) was greater than the percentage of firms reporting increases (10 percent). With regard to prices of their final manufactured goods, more firms report decreases (22 percent) than increases (10 percent). The prices received index fell from -4.0 in June to -12.0 this month and has remained negative for nine consecutive months.

Expectations for Future Growth Moderate

Expectations for future manufacturing growth can still be characterized as optimistic, although manufacturers

are somewhat less optimistic this month than in the previous survey. The index of future general activity fell from 58.2 in June to 35.8 this month. Nevertheless, nearly four times more respondents expect growth in business activity over the next six months (49 percent) than declines (13 percent). Indexes for both future new orders and shipments also slipped somewhat this month but continue to reflect overall optimism: the future new orders index declined from 55.8 to 44.6, and the future shipments index fell from 47.6 to 42.0.

Employment expectations continue to be somewhat favorable among the

survey respondents. More firms expect increases in employment over the next six months (26 percent) than decreases (19 percent). Still, the future employment index declined from 12.6 in June to 6.1 this month. Capital expenditure plans remain tempered: the capital expenditures diffusion index increased little, moving from its low reading of 0.1 in June to 3.8 this month.

Summary

Although current indicators of business conditions have improved from the very negative readings at the beginning of this year, this month's survey responses

suggest continued weakness in manufacturing activity in the region. More firms report declines in input prices than report increases this month, and prices of final manufactured goods remain under downward pressure. While inventories have been reported to be declining in recent months, a majority of firms still consider current levels too high and anticipate further adjustments over the next few months. Optimism about growth in the manufacturing sector over the next six months remains high despite a decline in some of the survey's future indicators this month.

BUSINESS OUTLOOK SURVEY

Summary of Returns July 2001

	July vs. June				Six Months from Now vs. July			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	29.1	50.5	16.9	-12.2	12.7	31.8	48.5	35.8
Company Business Indicators								
New Orders	36.6	32.5	30.9	-5.7	12.3	28.6	56.9	44.6
Shipments	39.3	41.6	19.1	-20.2	15.2	24.8	57.3	42.0
Unfilled Orders	28.9	61.6	9.5	-19.4	13.0	53.6	33.4	20.4
Delivery Times	23.7	69.1	7.1	-16.7	15.0	78.9	6.2	-8.8
Inventories	34.5	49.0	15.6	-18.9	35.8	51.5	12.7	-23.1
Prices Paid	14.9	75.0	10.0	-4.9	11.8	56.9	31.3	19.5
Prices Received	22.1	64.3	10.1	-12.0	11.2	63.4	23.0	11.9
Number of Employees	20.2	67.5	12.3	-7.8	19.4	55.1	25.5	6.1
Average Employee Workweek	23.3	69.5	7.2	-16.0	13.1	63.4	23.5	10.5
Capital Expenditures	—	—	—	—	20.7	51.4	24.4	3.8

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.

(4) Survey results reflect data received through July 10, 2001.