



BUSINESS OUTLOOK SURVEY

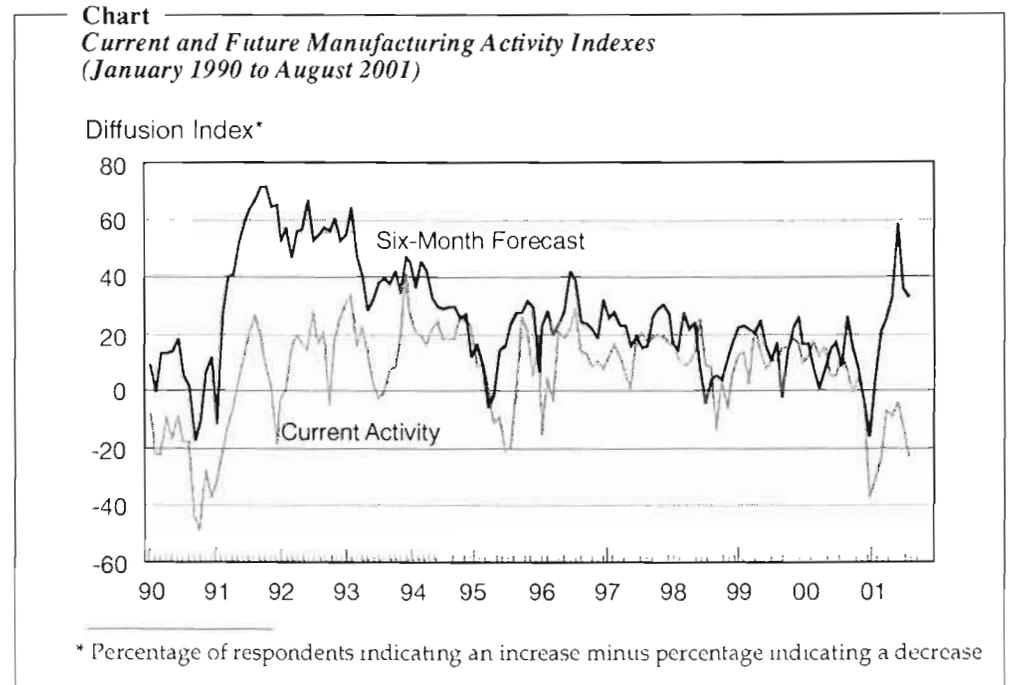
August 2001

Activity in the region's manufacturing sector continues to decline, according to firms surveyed for this month's *Business Outlook Survey*. Most indicators fell from their readings in July and suggest larger declines than in the previous few months. The firms remain optimistic, however, that business will recover from current depressed levels over the next six months, but capital spending and employment expansion plans remain lackluster.

Current Indicators Fall Back

For the ninth consecutive month, the percentage of firms reporting declines in activity (37 percent) was greater than the percentage reporting increases (14 percent). The current index of general activity was more negative than last month, decreasing from -12.2 in July to -23.5 this month (see Chart). The current new orders index, which tends to move in step with the current activity index, showed a similar decline this month: it fell from -5.7 to -20.4. The current shipments index increased slightly from its low reading of -20.2 in July to -17.4.

Other indicators confirm the weakness reported in new orders and shipments. Unfilled orders continue to decline: the current unfilled orders index fell from -19.4 in July to -27.8. Delivery times continue to shorten: the current index fell from -16.7 in July to -29.4 this month. Manufacturers have succeeded in reducing inventories



in this period of weak demand. The current inventories index decreased from -18.9 in July to -21.5. Firms reduced their payrolls again this month. Only 12 percent of firms reported increasing employment this month; 25 percent reported decreasing employment. The current employment index fell from -7.8 in July to -12.2.

Survey participants were asked a special question this month about the impact of the high value of the dollar since the beginning of the year on their businesses. Almost 44 percent of firms said the strong dollar had no effect on their businesses, but 46 percent reported negative effects (see Special Question). Eighteen percent of the firms reported substantial negative effects.

Price Declines Reported

Survey indicators suggest diminished price pressures on both inputs and manufactured goods this month. For the second consecutive month more firms reported lower prices for their purchased inputs (21 percent) than higher prices (12 percent). The current prices paid index fell from -4.9 in July to -9.2 this month. The index of prices received for final manufactured goods remained negative and essentially unchanged. With regard to prices of their final manufactured goods, more firms reported decreases (19 percent) than increases (7 percent). The prices received index remained at about -12.

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Expectations Remain Optimistic

Expectations for future manufacturing growth continue to be favorable. The future general activity index (33.1) was about the same as in July. Nearly 53 percent of the firms polled expect increases in future activity while only 20 percent expect declines. Both the future shipments index and future new orders index fell slightly from their readings in July. Manufacturers report that the inventory correction is not over. Inventories are expected to decrease further from their current levels: the future inventories index remained negative but increased from -23.2 in July to -15.8 in August.

Firms' expectations regarding employment are less encouraging than their outlook for future activity. More firms expect to decrease employment (29 percent) than increase employment (21 percent). Capital expenditure plans remain tempered: the current capital expenditures index edged up slightly from

its reading of 3.8 in July to 5.9 this month, and the index has remained at relatively low levels since January.

Summary

Current indicators suggest that business conditions for the region's manufacturing sector continued to deteriorate in August. Survey participants report declines in the

levels of general activity, new orders, shipments, and employment. More firms report price declines than price increases for both inputs and outputs again this month. Optimism about growth in the manufacturing sector over the next six months remains high: firms expecting increases outnumber firms expecting decreases by four to one.

Special Question (August 2001)

Since the beginning of the year the value of the dollar has risen about 6 percent against the currencies of our major trading partners. Which of the following best characterizes the effect of the rise in the value of the dollar on your business?

	Percentage
substantial negative effect	18.1 %
some negative effect	27.7 %
no effect	43.6 %
some positive effect	10.6 %
substantial positive effect	0.0 %
Total	100%

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**Summary of Returns
August 2001**

	August vs. July				Six Months from Now vs. August			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	37.0	42.4	13.5	-23.5	19.7	23.7	52.8	33.1
Company Business Indicators								
New Orders	37.9	44.0	17.5	-20.4	15.8	21.8	59.3	43.5
Shipments	32.8	51.8	15.4	-17.4	19.0	21.7	57.4	38.5
Unfilled Orders	36.4	54.6	8.6	-27.8	15.1	49.5	30.2	15.1
Delivery Times	32.0	65.3	2.6	-29.4	17.3	69.6	9.0	-8.3
Inventories	37.5	46.5	16.0	-21.5	32.8	43.0	17.0	-15.8
Prices Paid	21.3	66.4	12.1	-9.2	7.1	61.9	25.7	18.6
Prices Received	18.8	74.3	6.9	-11.9	7.0	69.5	18.1	11.0
Number of Employees	24.6	63.1	12.3	-12.2	28.9	44.4	20.8	-8.1
Average Employee Workweek	31.5	61.2	7.3	-24.2	18.9	49.4	26.6	7.7
Capital Expenditures	—	—	—	—	19.6	40.6	25.5	5.9

- Notes: (1) Items may not add up to 100 percent because of omission of respondents.
 (2) All data seasonally adjusted.
 (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.
 (4) Survey results reflect data received through August 10, 2001.