



BUSINESS OUTLOOK SURVEY

September 2001

Survey indexes improved this month, even though the percentage of firms reporting decreases in activity exceeded the percentage reporting increases for the tenth consecutive month. Indicators suggest that new orders stabilized, but employment was lower than in the previous month. This month firms were more optimistic about conditions six months into the future; however, survey responses were completed prior to the tragic events of September 11.

Current Indicators Show Improvement

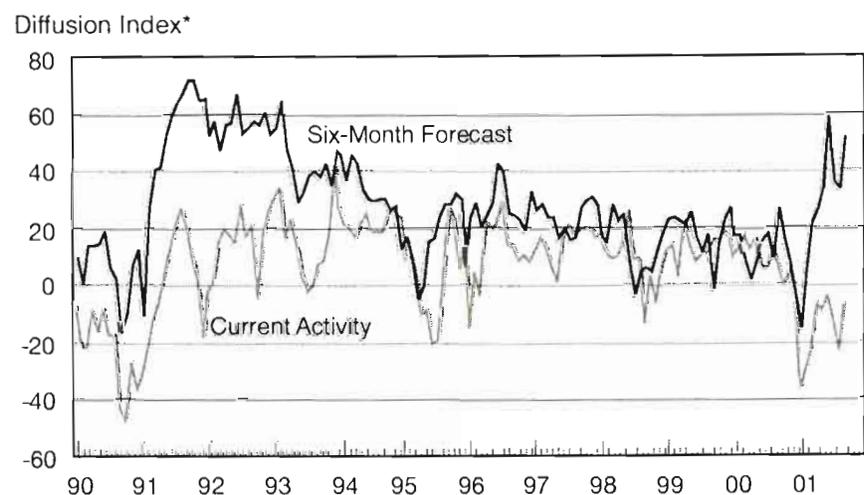
Although the diffusion index of current activity remained negative this month, it improved from -23.5 in August to -7.3 (see Chart). Nearly 28 percent of the firms reported decreases in activity, and 20 percent reported increases. The improvement in the current activity index was accompanied by improvement in the indexes for current shipments and new orders. The shipments index improved from -17.4 in August to -3.9. The current new orders index suggests that, compared with the previous month, demand stabilized for manufactured goods; the index increased from -20.4 to 0.7, its highest reading in nine months. Delivery times continued to shorten and unfilled orders decreased, although the indexes were notably less negative than in the previous month. The current inventories index fell from -21.5 to -27.3 this month, suggesting continued declines in inventories.

The demand for labor continues to be weak. The current employment index, which has remained negative for 11

Special Notice: All of the survey responses reflected in this month's *Business Outlook Survey* were completed prior to the terrorist attacks on September 11, 2001.

Chart

Current and Future Manufacturing Activity Indexes (January 1990 to September 2001)



* Percentage of respondents indicating an increase minus percentage indicating a decrease

consecutive months, declined slightly from -12.2 in August to -16.2. More than 25 percent of the manufacturers reported declines in employment this month; only 9 percent reported increases. The current average workweek continues to decline, although the current workweek index improved somewhat, increasing from -24.2 to -16.1.

Price Declines Reported

Survey indicators suggest diminished price pressures for both inputs and manufactured

goods this month. Over 24 percent of firms reported decreases in input prices; 11 percent reported increases. The current prices paid index declined from -9.2 in August to -13.2 in September, its third consecutive negative reading.

With regard to prices of their own manufactured goods, the largest percentage of firms (76 percent) reported no change this month. But the percentage reporting price decreases (18 percent) exceeded the percentage reporting increases (6 percent) for the 11th

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consecutive month, and the prices received index fell from -11.9 to -12.2.

Forecasts Showed Improvement Prior to September 11 Attacks

The index of future general activity increased notably from 33.1 in August to 51.3 this month (see Chart). Nearly 58 percent of the firms polled expected increases in business activity over the next six months, and only 6 percent expected decreases. A similar improvement is evident in forecasts for new orders and shipments. The future employment index also increased from -8.1 to 2.4.

Survey participants were asked this month if their own businesses experienced a decline in manufacturing relative to the downturn in the U.S. manufacturing sector (see Special Question). Seventy-five percent of firms indicated that they had experienced a downturn paralleling that in the national manufacturing sector; 25 percent reported they had not experienced a decline. Of the 75 percent reporting a decline in activity, 13 percent reported they were already seeing improved business. Slightly less than half of the firms had seen recovery already or

will see recovery before the second quarter of 2002. Slightly more than half expect recovery in the second quarter or later.

Summary

Most current indicators improved from their readings last month. Although weakness continued, indicators for general activity and shipments showed marked improvement over

the previous few months. On balance, new orders were steady with the previous month, but employment losses continued to be reported. As a snapshot of what firms were experiencing and expecting prior to September 11, 13 percent of firms reported some recovery in business, but 55 percent did not expect recovery until the second quarter of next year or later.

Special Question (September 2001)

During the recent national downturn in manufacturing, did your plant experience a decline in activity?

	Percentage
Yes	75.3%
No	24.7%
Total	100.0%

If yes, when did you see, or when do you expect to see, a turnaround in activity?

	Percentage
Already	13.4%
Fourth quarter 2001	10.5%
First quarter 2002	20.9%
Second quarter 2002	37.3%
After second quarter 2002	17.9%
Total	100.0%

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**Summary of Returns
September 2001**

	September vs. August				Six Months from Now vs. September			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	27.6	51.5	20.3	-7.3	6.3	33.5	57.6	51.3
Company Business Indicators								
New Orders	30.0	39.3	30.6	0.7	5.0	34.5	55.2	50.2
Shipments	26.8	49.3	22.9	-3.9	5.0	32.0	57.4	52.4
Unfilled Orders	19.2	71.1	9.7	-9.4	7.9	57.1	24.4	16.5
Delivery Times	18.8	73.9	4.9	-13.9	14.1	67.1	10.4	-3.7
Inventories	39.0	48.6	11.6	-27.3	40.9	41.4	10.3	-30.6
Prices Paid	24.2	64.7	11.0	-13.2	9.5	64.7	17.1	7.5
Prices Received	18.3	75.6	6.1	-12.2	10.4	67.8	14.6	4.2
Number of Employees	25.3	63.9	9.1	-16.2	20.9	47.0	23.3	2.4
Average Employee Workweek	23.4	68.6	7.3	-16.1	1.1	56.4	26.6	25.5
Capital Expenditures	—	—	—	—	17.8	45.2	27.6	9.8

- 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 September 10, 2001.