



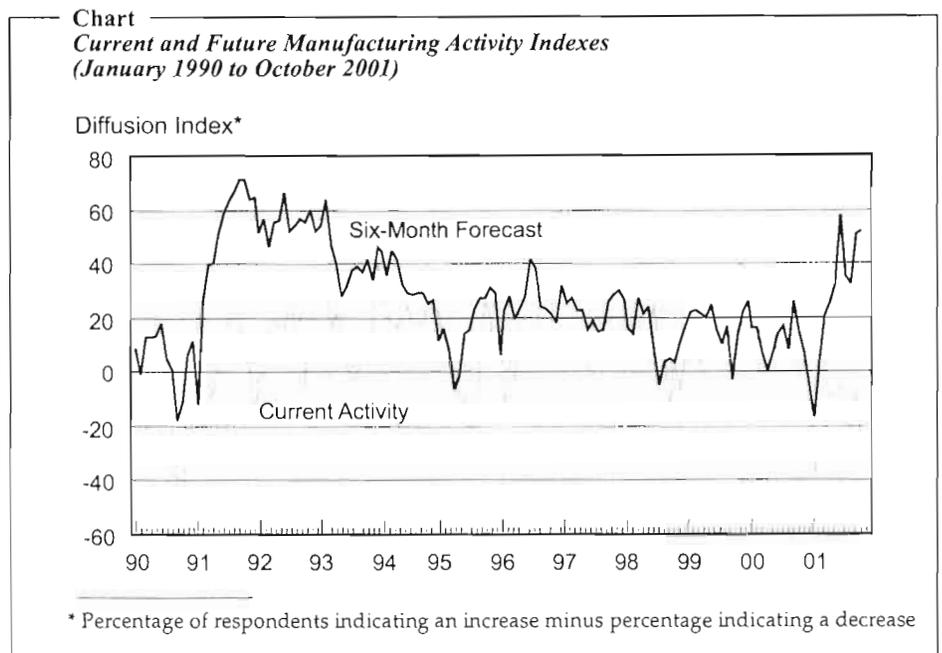
# BUSINESS OUTLOOK SURVEY

October 2001

Although there were signs prior to September 11 that improvement was close at hand, responses to this month's *Business Outlook Survey* suggest conditions in the region's manufacturing sector deteriorated following the terrorist attacks. The decline in activity is reflected in significant declines in indexes for new orders, shipments, employment, and hours worked this month. Despite the decline in current activity, firms remain optimistic that business will recover from current depressed levels over the next six months.

### Current Indicators Return to Lows Of Earlier This Year

The diffusion index of current activity decreased sharply from -7.3 in September to -27.4 this month, its lowest reading since February (see Chart). The percentage of manufacturing firms reporting declines in activity (50 percent) was greater than the percentage reporting increases (22 percent) for the 11th consecutive month. The current new orders index showed a similar decline this month: it fell from 0.7 in September to -17.1. The current shipments index also declined, falling from -3.9 in September to -16.9. Survey participants were asked if their own businesses experienced declines in new orders and shipments following the attacks. Almost 55 percent of firms reported that new orders had declined following September 11 (17 percent said "significantly," and 38 percent



said "some"); and over 41 percent of the firms reported declines in shipments directly attributable to the attacks (see Special Questions).

Other indicators showed weakness this month. Indexes for unfilled orders and delivery times continue to be negative. Declines in inventories continued to be reported this month. However, the current inventories index was less negative in October, increasing from -27.3 to -15.9. The demand for labor continues to be weak. The current employment index, which has been negative for 12 consecutive months, declined sharply from -16.2 in September to -27.0 this month. Only 8 percent of firms reported increasing employment this month; over 35 percent reported decreasing employment. The average work hours index also fell, declining from -16.1 in September to -23.2.

### More Firms Report Price Declines

Survey indicators continued to suggest diminished price pressures for both inputs and manufactured goods. For the fourth consecutive month more firms reported paying lower prices for their purchased inputs (24 percent) than higher prices (2 percent). The current prices paid index fell from -13.2 in September to -22.1, its lowest reading in the history of the survey. With regard to prices of their final manufactured goods, more firms reported decreases (22 percent) than increases (7 percent). The prices received index fell slightly from -12.2 last month to -14.9.

### Firms' Forecasts Remain Optimistic

Despite the deterioration in current activity, firms' expectations for future manufacturing growth continue to be favorable. The index of future general

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activity edged slightly higher this month, from 51.3 in September to 52.3 (see Chart). Over 62 percent of the firms expect improved business in the next six months; 0 percent expect deterioration. A similar percentage of firms expect increases in new orders and shipments over the next six months. Firms' expectations regarding employment continue to be less encouraging than their outlook for overall activity. The percentage of firms expecting employment increases (21 percent) is virtually the same as the percentage expecting decreases in employment. Average work hours, however, are expected to increase: 28 percent expect increases from current levels, but only 10 percent expect reductions.

In addition to the special question about the effects of the attacks on current new orders and shipments, firms were asked the same question from September's survey about their expectations for a recovery in their own manufacturing businesses. About 59 percent of the firms do not expect recovery to occur until the second quarter of 2002 or later. This is up somewhat from 55 percent that expected recovery over that period in the previous survey (see Special Questions).

#### Summary

Survey indicators of current conditions fell notably this month, reflecting declines in activity, new orders, shipments, and employment. Firms attributed the declines to the September 11 attacks and subsequent economic conditions. But despite the short-run effects of the attacks,

expectations about the future were not affected dramatically. When compared with the previous survey, however, this month's survey shows a modest lengthening of the time expected for recovery from the current downturn.

#### Special Questions (October 2001)

How have the terrorist attacks of September 11 affected new orders and shipments at your plant?

	New Orders	Shipments
Significant Decrease	16.5%	11.4%
Some Decrease	38.2%	29.9%
No Effect	29.9%	53.6%
Some Increase	14.4%	4.1%
Significant Increase	1.0%	1.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

If you experienced a downturn in activity either *before* or *after* September 11, when do you expect to see a turnaround?

		Last month's response
Has already occurred	5.7%	13.4%
Fourth quarter 2001	12.9%	10.5%
First quarter 2002	22.9%	20.9%
Second quarter 2002	35.7%	37.3%
After second quarter 2002	22.8%	17.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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##### Summary of Returns October 2001

	October vs. September				Six Months from Now vs. October			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	49.5	25.9	22.1	-27.4	9.9	23.3	62.2	52.3
Company Business Indicators								
New Orders	47.9	21.2	30.8	-17.1	10.5	18.1	64.2	53.7
Shipments	43.5	27.6	26.6	-16.9	11.1	13.9	65.8	54.7
Unfilled Orders	23.9	61.0	12.8	-11.0	10.7	48.9	31.3	20.6
Delivery Times	22.8	68.1	6.9	-15.9	13.5	65.0	12.1	-1.4
Inventories	34.3	42.5	18.4	-15.9	32.9	38.0	17.1	-15.9
Prices Paid	23.9	69.9	1.9	-22.1	10.7	62.3	19.0	8.3
Prices Received	22.0	69.6	7.1	-14.9	10.3	62.0	21.2	10.8
Number of Employees	35.2	54.7	8.2	-27.0	20.7	48.8	20.5	-0.2
Average Employee Workweek	27.4	64.5	4.2	-23.2	10.2	51.9	28.0	17.8
Capital Expenditures	—	—	—	—	19.5	45.2	28.6	9.1

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 October 10, 2001.