



BUSINESS OUTLOOK

SURVEY

November 2001

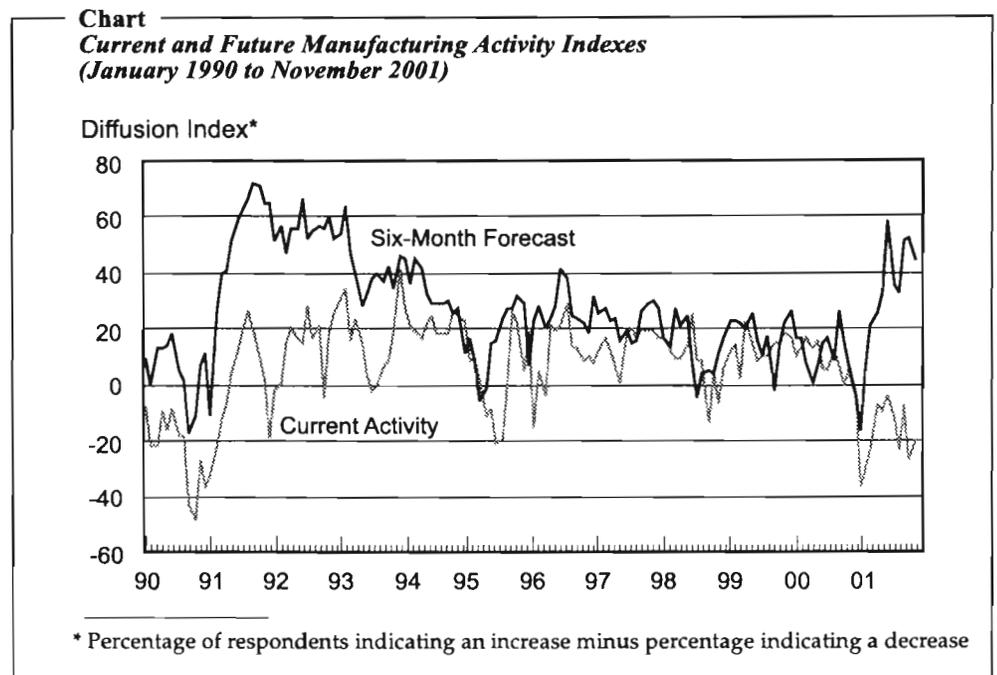
Activity in the region's manufacturing sector continued to decline, according to firms surveyed for this month's *Business Outlook Survey*. Firms reported declines in overall activity, new orders, shipments, employment, and average work hours. A notable percentage of the firms reported declines in prices of both their inputs and their final produced goods. Expectations for growth over the next six months remain high, although not as high as in the previous month.

Current Indicators Suggest Continued Declines

Following a sharp decline in October's index of current general activity, this month's index improved marginally, increasing from -27.4 to -20.2 (see Chart). Nearly 43 percent of the manufacturers polled reported declines in business activity this month; 23 percent reported increases. Indexes for both new orders and shipments also remained in negative territory this month. The current new orders index improved slightly, increasing from -17.1 in October to -15.7, but the current shipments index fell from -16.9 in October to -23.6.

Other indicators confirm the weakness reported in new orders and shipments. Unfilled orders and delivery times continued to decline: the current unfilled orders index was virtually unchanged at -10.9, and the current delivery times index increased from -15.9 to -9.3. On balance, inventories continued to decrease: the inventory index remained negative at -14.1, but it improved slightly from -15.9 in October.

The demand for labor continues to be weak. The current employment index, which has remained negative for 13



consecutive months, improved slightly from -27.0 in October to -23.1. Almost 34 percent of the manufacturers reported declines in employment this month; only 11 percent reported increases. The current average workweek continued to decline, although the index increased from -23.2 to -12.1.

Firms Report Falling Prices

Survey indicators continue to suggest diminished price pressures for both inputs and manufactured goods. For the fifth consecutive month, more firms reported declines in the prices for inputs (25 percent) than reported increases (6 percent). The current prices paid index, which was at a historical low of -22.1 in October, increased slightly to -18.4 this month. Sixteen percent of the firms reported lower prices for their own products this month; only 1 percent reported higher

prices. The current prices received index remained negative (-15.0) for the 13th consecutive month and was essentially unchanged from the previous month.

Manufacturing Forecasts Remain Optimistic

Expectations for future manufacturing growth can still be characterized as optimistic, although manufacturers are somewhat less optimistic this month than last. The index of future general activity fell from 52.3 in October to 44.3 this month (see Chart). Nevertheless, nearly six times as many respondents expect growth in business activity over the next six months (53 percent) than declines (9 percent). Although they are still strongly positive, firms' expectations for new orders and shipments declined this month. The future new orders index fell from 53.7 in October to 41.3, and the

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future shipments index fell from 54.7 to 41.3. Although firms expect the level of unfilled orders to increase, delivery times are expected to remain near current levels. Survey participants were asked if there have been any short-run and long-run effects on their inventory plans in light of the September terrorist attacks. Apparently, the change in the economic climate since September 11 has shaded firms' plans in the direction of decreasing inventories between now and the end of the year (see Special Questions). About 31 percent say they have decreased their planned inventories for the rest of the year; only 8 percent indicated that they have increased their planned inventories. Likewise, 20 percent indicated that they will hold lower average inventories in the long run; only 4 percent indicated they plan higher average inventories in the long run.

Firms remain relatively cautious about their employment plans. Although more than 55 percent see growth in new orders over the next six months, only 30 percent expect to increase employment, and more than 23 percent expect to decrease employment. The future employment index increased from its reading of -0.2 in October to 7.1 this month.

Capital expenditure plans continue to be subdued. The percentage of firms expecting

Special Questions (November 2001)

We are interested in knowing how the economic effects of September 11 changed your firm's short-run and long-run inventory plans.

How have your inventory plans changed for the remainder of the year?

Decreased	31%
No Change	61%
Increased	8%
Total	100%

How have conditions since September 11 changed your long-run inventory strategy?

We will maintain lower average inventories than we would have otherwise	20%
The events have not altered our inventory strategy	76%
We will maintain higher average inventories than we would have otherwise	4%
Total	100%

decreased expenditures on capital over the next six months (17 percent) is slightly greater than the percentage expecting increased expenditures (16 percent), and the index of future capital expenditures decreased from 9.1 to -1.2.

Summary

Current indicators suggest that business conditions for the region's manufacturing sector continued to decline in November.

Survey participants reported declines in the level of general activity, new orders, shipments, and employment. More firms reported price declines than price increases for both inputs and output again this month. Although most of the broad indicators of future activity declined this month, firms' expectations can continue to be characterized as optimistic. However, employment and capital expenditure plans remain subdued.

BUSINESS OUTLOOK SURVEY

**Summary of Returns
November 2001**

	November vs. October				Six Months from Now vs. November			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	42.9	33.3	22.7	-20.2	9.0	33.7	53.3	44.3
Company Business Indicators								
New Orders	44.7	26.4	29.0	-15.7	13.8	27.7	55.1	41.3
Shipments	43.3	33.2	19.8	-23.6	13.3	30.3	54.7	41.3
Unfilled Orders	26.0	54.6	15.2	-10.9	10.5	59.0	28.5	18.1
Delivery Times	18.4	71.5	9.2	-9.3	12.5	65.5	16.2	3.7
Inventories	31.2	50.0	17.0	-14.1	33.2	43.3	19.2	-14.0
Prices Paid	24.5	68.6	6.0	-18.4	9.4	67.0	17.9	8.5
Prices Received	16.1	82.3	1.0	-15.0	5.6	79.3	12.5	6.9
Number of Employees	33.6	55.0	10.5	-23.1	23.3	44.8	30.4	7.1
Average Employee Workweek	27.4	56.1	15.2	-12.2	11.9	56.2	26.5	14.6
Capital Expenditures	—	—	—	—	17.2	40.7	16.0	-1.2

- 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 November 10, 2001.