



BUSINESS OUTLOOK

SURVEY

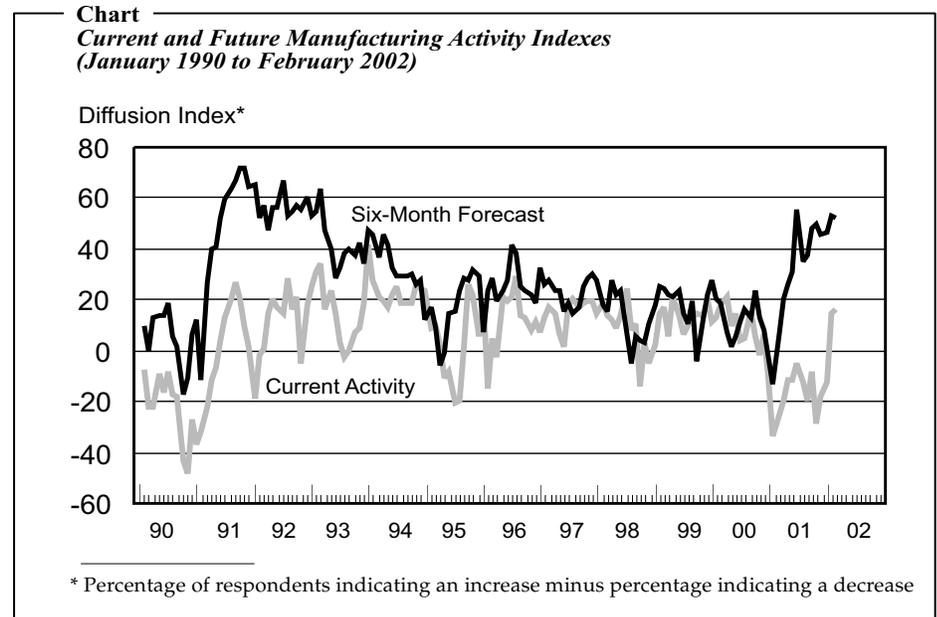
February 2002

Activity in the region's manufacturing sector improved for the second consecutive month, according to firms surveyed for this month's *Business Outlook Survey*. Firms reported increases in overall activity, new orders, and shipments, although employment is still reported to be in decline. Manufacturers are optimistic that business will continue to improve over the next six months.

Indicators Suggest Second Month of Increase

The diffusion index of current activity increased slightly, from 14.7 in January to 16.0 this month. This is the second consecutive positive reading for the index, following 13 months of negative readings (see Chart). Other indicators also increased marginally this month. The new orders index increased from 12.6 to 13.7, its second consecutive positive reading. The shipments index increased from 14.4 to 16.6. Firms still reported declines in inventories: the current inventories index remained negative at -14.8 but improved slightly from -17.9 in January. Delivery times edged higher this month: the current delivery times index increased from -14.4 to 4.6, the first reading above zero in 21 months. The current unfilled orders index fell, however, decreasing slightly from -7.0 to -9.0.

Demand for labor continues to be weak despite the improvement in activity. Although 67 percent of the firms indicated no change in employment this month, the percentage reporting declines (24 percent) was larger than the percentage reporting increases (9 percent). The current employment index fell from -9.3 in January to -14.7 this month. The aver-



age workweek index showed some improvement, increasing from -5.0 to -2.9.

Prices Are Steady

Survey indicators continue to suggest diminished price pressure for both inputs and manufactured goods. Two-thirds of the manufacturers polled reported steady prices of their manufactured goods this month. The percentage of firms reporting declines in their prices (13 percent) was larger than the percentage reporting increases (10 percent) for the 16th consecutive month. The prices received index rose from -7.1 in January to -3.7 this month. For the eighth consecutive month more firms reported declines in prices for inputs (10 percent) than increases (6 percent). The prices paid index increased slightly, from -5.9 to -4.5.

Rising health benefit costs are a concern of area manufacturers (see *Special Questions*). In response to this month's

special questions, 42 percent of firms expect benefit costs to rise between 10 to 15 percent this year. Nineteen percent, however, expect increases of 15 to 20 percent, and more than 12 percent expect them to rise by more than 20 percent.

Manufacturing Forecasts Remain Optimistic

Expectations for future manufacturing growth continue to be favorable. The future general activity index decreased slightly from 53.2 in January to 51.8 this month (see Chart). Over 64 percent of the manufacturers polled expect increases in activity over the next six months; only 12 percent expect decreases. The future in-

To subscribe to this publication call (215) 574-6428. This publication can be found at www.phil.frb.org.

dexes for new orders and shipments also remained high and increased slightly from their January readings. On balance, firms expect an increase in unfilled orders and longer delivery times over the next six months. Inventories are expected to remain near current levels.

Firms' expectations regarding employment continue to be less encouraging than their outlook for future activity. Although 64 percent expect growth in business activity, only 26 percent of the firms expect an expansion in employment, and 13 percent expect cutbacks. The future employment index edged higher, however, from 10.1 last month to 12.2. Following an improvement in the index last month, the future capital expenditures index declined from 25.6 to 10.0 this month. Twenty-one percent of firms expect increases in capital spending over the next six months (30 percent reported such plans in the previous month).

Summary

Current indicators suggest a bottoming out of the region's manufacturing sector. Most indicators remained positive for the second consecutive month, and nearly a third of firms reported increases in shipments and new orders this month. While inventories are still declining, delivery times were slightly longer this month. Despite a pickup in current activity, overall employment continues to decline. Optimism about growth in the manufacturing sector over the next six months remains high, although the outlook for employment growth and capital spending remains more cautious.

Special Questions (February 2002)

How much do you expect your firm's health benefit costs to increase in 2002 over 2001?

0 to 5 %	3.4%
5 to 10 %	23.6%
10 to 15 %	41.6%
15 to 20 %	19.1%
20 to 25 %	5.6%
More than 25 %	6.7%
Total	100.0%

How much of an impact will this have on your overall costs?

Very little	12.4%
Some	42.7%
Significant	40.4%
Major	4.5%
Total	100.0%

BUSINESS OUTLOOK SURVEY

Summary of Returns February 2002

	February vs. January				Six Months from Now vs. February			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	16.4	50.8	32.4	16.0	12.4	16.3	64.2	51.8
Company Business Indicators								
New Orders	22.4	40.6	36.1	13.7	11.5	20.7	61.8	50.3
Shipments	15.9	46.8	32.5	16.6	12.8	17.9	61.2	48.4
Unfilled Orders	20.1	67.3	11.1	-9.0	9.1	61.1	21.9	12.8
Delivery Times	8.8	77.7	13.4	4.6	10.9	59.9	21.2	10.3
Inventories	31.6	50.8	16.8	-14.8	23.9	48.6	19.2	-4.7
Prices Paid	10.3	83.8	5.9	-4.5	5.5	61.2	28.5	23.0
Prices Received	13.3	74.7	9.6	-3.7	3.8	68.9	19.6	15.8
Number of Employees	23.7	67.0	9.0	-14.7	13.3	56.1	25.5	12.2
Average Employee Workweek	22.8	53.6	19.9	-2.9	12.9	46.9	32.9	20.0
Capital Expenditures	—	—	—	—	11.1	51.0	21.0	10.0

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 February 10, 2002.