



# BUSINESS OUTLOOK SURVEY

August 2002

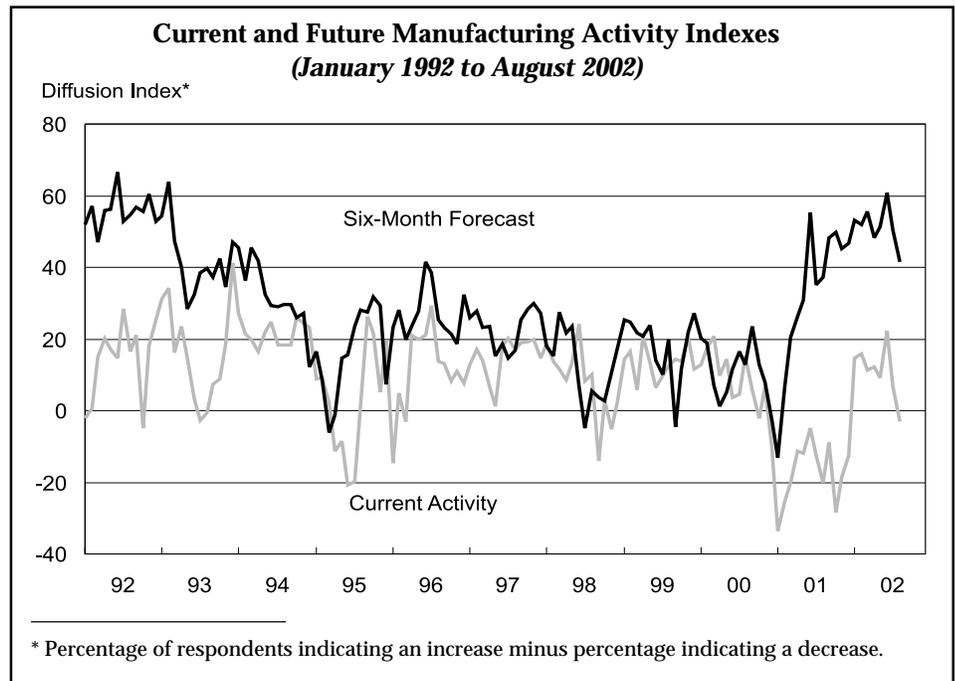
For the first time this year, manufacturing firms' responses from the *Business Outlook Survey* indicate a slight decrease in activity. Indicators of general activity, new orders, and shipments recorded negative readings for the first time since December 2001. Overall employment among firms is lower again this month, and the declines were larger than in recent months. Expectations for growth also diminished in August, although manufacturing executives continue to be optimistic about conditions for the next six months.

## Current Indicators Turn Negative This Month

After reaching a four-year high in June, the diffusion index of current general activity decreased to 6.6 in July and to -3.1 this month, its first negative reading this year (see chart). Nearly 50 percent of the firms reported no change in activity this month, but the percentage reporting decreases (27 percent) was slightly higher than the percentage reporting increases (24 percent).

Other indicators also turned negative this month. The new orders index declined from 6.6 in July to -2.7 in August, and the shipments index fell from 4.6 to -3.3. Backlogs of unfilled orders dropped notably: The current unfilled orders index fell from -6.2 in July to -19.6. The delivery times index remained negative, although it edged higher from -13.3 to -5.1. More firms reported higher inventories this month (28 percent) than lower inventories (19 percent), and the current inventories index increased from -14.1 to 8.1, its first positive reading in 22 months.

The demand for labor continues to be weak, and consistent with the weakness in activity, employment losses increased this month. The current employment



index decreased from -6.8 to -13.4, its lowest reading since February. Although over 70 percent of the firms are holding employment steady at their plants, the percentage that reported lower employment (22 percent) was greater than the percentage that reported higher employment (8 percent). The average workweek index also fell in August from -6.9 to -8.3.

In response to a special question this month, the highest percentage of firms expect that the weaker dollar will have no impact on their exports (60 percent) or imports (66 percent) over the next year (see Special Question). Thirty percent of the firms expect some resulting increase in exports over the next year, although 10 percent expect some decreases. Regarding imports of raw

materials and other inputs, 19 percent of firms expect a decline, and 15 percent expect an increase.

## Prices of Manufactured Goods Are Steady

Overall, 77 percent of firms surveyed reported no change in prices of their own manufactured goods this month, and the percentage of firms reporting higher prices (12 percent) is nearly offset by the percentage reporting lower prices (10 percent). The prices received index, at 2.1, was virtually unchanged from its reading in July.

The percentage of firms that reported a rise in input prices (25 percent) was higher than the percentage that reported a decrease (1 percent). The diffusion index for prices paid increased marginally from 17.9 in July

**Special Question (August 2002)**

Recently the value of the dollar has fallen against the currencies of our major trading partners. Over the next year what effect do you expect the decline in the value of the dollar to have on exports of your products and your imports of raw materials and other inputs?

	Substantial Decline	Some Decline	No Effect	Some Increase	Substantial Increase
Exports	0%	10%	60%	28%	2%
Imports	0%	19%	66%	12%	3%

to 23.9 this month. Still, the largest percentage of firms (74 percent) reported steady input prices this month.

**Expectations Indexes Moderate Again This Month**

Expectations for future manufacturing growth can still be characterized as optimistic, although manufacturers are less optimistic than they were at mid-year. The percentage of firms expecting growth over the next six months (over 47 percent) far exceeds the percentage of firms expecting declines (6 percent). Nevertheless, the future activity index moderated this month, from 50.4 in July to 41.6. Indicators of expected new orders and shipments also declined this month: The future new orders index fell from

54.8 to 42.3, and the future shipments index fell slightly from 44.4 to 42.5. On balance, firms expect unfilled orders to increase over current levels and delivery times to decline slightly. Only a slightly greater percentage of firms expect lower inventories over the next six months (22 percent) than expect higher levels of inventories (19 percent).

Expectations regarding future employment are much less optimistic this month. The percentage of firms expecting to reduce their employment rolls (18 percent) was slightly higher than the percentage expecting to increase employment (17 percent). The future employment index also dropped significantly, from 21.1 in July to -0.8 this month, its lowest reading in a year. The diffusion index for future capital

expenditures also dropped notably, from 24.4 in July to 5.1.

**Summary**

Responses from the *Business Outlook Survey* over the last two months suggest some slowing of activity in the region's manufacturing sector. For the first time in eight months, the percentage of firms reporting declines in activity was greater than the percentage reporting increases. Most of the survey's broad indicators fell this month. Nevertheless, firms remain optimistic about growth in manufacturing activity over the next six months, even though expectations dampened in August. Only a small percentage of firms expect further declines in business.

**BUSINESS OUTLOOK SURVEY**

**Summary of Returns  
August 2002**

	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?	26.6	49.9	23.5	-3.1	5.5	40.2	47.1	41.6
Company Business Indicators								
New Orders	25.9	47.6	23.2	-2.7	8.3	33.7	50.6	42.3
Shipments	26.5	50.3	23.2	-3.3	7.8	36.9	50.3	42.5
Unfilled Orders	32.0	55.7	12.4	-19.6	9.3	62.4	23.0	13.6
Delivery Times	15.0	75.0	9.9	-5.1	14.4	71.5	8.4	-6.0
Inventories	19.4	53.2	27.5	8.1	22.2	51.7	19.2	-3.0
Prices Paid	0.7	74.3	24.7	23.9	2.7	57.5	35.2	32.5
Prices Received	9.9	76.7	12.0	2.1	14.6	59.3	20.7	6.0
Number of Employees	21.5	70.4	8.1	-13.4	17.8	61.8	16.9	-0.8
Average Employee Workweek	21.0	64.7	12.7	-8.3	12.5	58.5	20.3	7.8
Capital Expenditures	—	—	—	—	17.4	41.8	22.5	5.1

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 indicating an increase minus the percentage indicating a decrease.
- (4) Survey results reflect data received through August 12, 2002.