



BUSINESS OUTLOOK

SURVEY

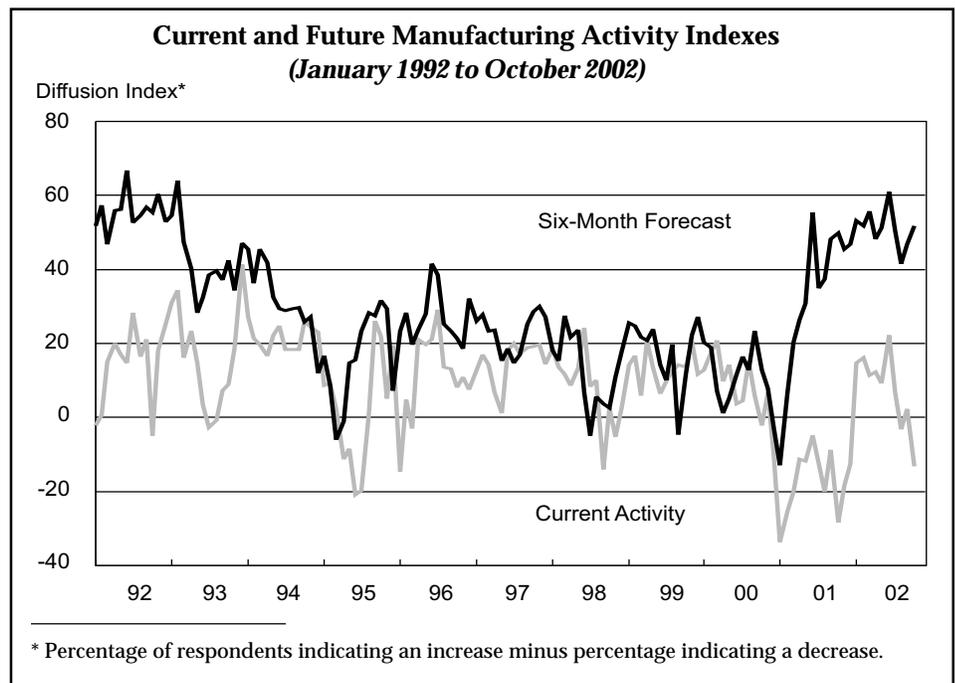
October 2002

Activity in the region's manufacturing sector weakened this month, according to firms surveyed for the October *Business Outlook Survey*. Indicators for general activity, new orders, and shipments declined from their readings in September. Overall employment among firms is lower again this month. Expectations for growth over the next six months remain optimistic.

Indicators Suggest Weakening

The diffusion index of current activity fell notably, from 2.3 in September to -13.1 in October. The index has now recorded negative readings in two of the last three months (see chart). More firms reported decreases in activity this month (34 percent) than reported increases (21 percent). Indicators for new orders and shipments also weakened. The current new orders index declined from 5.6 in September to -1.3 in October, with slightly more firms reporting a decrease in new orders (29 percent) than reporting an increase (27 percent). The current shipments index declined from 10.6 in September to -3.1 this month.

Other indices corroborate evidence of weakness this month. The index for unfilled orders remained negative for the fourth consecutive month and decreased significantly, from -3.6 in September to -19.5. The delivery times index also deteriorated, falling from -0.8 in September to -12.6. The current inventories index increased from -9.7 in September to -2.0 this month. Nearly the same percentage of firms reported inventory



declines this month (25 percent) as reported increases (23 percent).

Labor market conditions also remain weak. The current employment index edged down slightly, from -4.9 in September to -5.1. More firms reported declines in employment this month (21 percent) than reported increases (16 percent). Similarly, more firms reported a lower average workweek this month (19 percent) than a higher average workweek (14 percent), and the current workweek index fell from -0.3 to -5.5.

Goods Prices Reported Lower

For the first time in eight months, more firms reported lower prices for their final manufactured goods (16 percent)

than reported higher prices (9 percent). The current prices received index fell from 5.2 in September to -7.5. Although prices of the firms' final manufactured goods were reported lower, many firms reported higher costs. More firms reported higher prices for purchased inputs this month (16 percent) than reported lower prices (2 percent). However, the current prices paid index moderated from 19.6 in September to 14.3, its lowest reading in six months.

Outlook for Manufacturing Remains Positive

Despite the decline in current activity this month, expectations for future growth continue to be favorable. The index of

Special Questions (October 2002)

In the past three months have your customers' expectations for the fourth quarter:	What is your own production plan for the remainder of the year:
Increased substantially 5%	Substantially increase production 2%
Increased slightly 19%	Slightly increase production 26%
Remained the same 35%	Keep production at current levels 39%
Decreased slightly 29%	Slightly decrease production 23%
Decreased substantially 12%	Substantially decrease production 10%
Total 100%	Total 100%

Are these fourth-quarter plans higher or lower than what was planned three months ago?		
More 41%	Less 59%	Total 100%

production; however, 33 percent expect decreases. Fifty-nine percent of the firms indicated that their fourth-quarter production plans were lower than what was planned just three months ago.

Summary

Overall manufacturing conditions remain sluggish in the region. Area manufacturers report deterioration in general activity and employment this month and nearly flat new orders and shipments. Firms expect little or no increase in production levels for the remainder of the year. Still, firms remain optimistic about growth in manufacturing over the next six months. Most firms expect improvement in general business conditions over the next six months, and only a small percentage of firms expect further deterioration.

future general activity increased modestly from 46.9 in September to 51.8 this month. Only 5 percent of the respondents expect deterioration in business conditions over the next six months; 57 percent expect improvement. The future new orders index was unchanged this month at 46.3, and the future shipments index rose from 46.2 to 49.8. Firms expect unfilled orders to increase over the next six months and delivery times, on balance, to edge higher. Manufacturers expect hiring to improve over the next six months. Fifty-six percent see growth in new orders over the next six

months, and 30 percent expect to increase employment. The future employment index improved from 12.3 in September to 17.9.

In this month's survey, firms were asked whether their customers' expectations for the fourth quarter have changed recently (see *Special Questions*). Although 24 percent of firms indicated that their customers' expectations for the fourth quarter had improved, 41 percent indicated some deterioration. With regard to their own production plans for the remainder of the year, 28 percent of the manufacturers indicated that they expect increases in

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Summary of Returns October 2002

	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?	34.0	44.0	20.9	-13.1	4.6	38.7	56.5	51.8
Company Business Indicators								
New Orders	28.5	41.4	27.2	-1.3	9.7	30.9	56.0	46.3
Shipments	29.6	36.5	26.5	-3.1	6.6	33.1	56.5	49.8
Unfilled Orders	31.1	57.4	11.5	-19.5	8.0	61.7	26.7	18.7
Delivery Times	21.9	68.7	9.4	-12.6	10.1	70.9	15.7	5.7
Inventories	25.2	48.1	23.2	-2.0	27.8	40.5	22.8	-5.0
Prices Paid	2.1	80.4	16.4	14.3	0.0	61.0	33.6	33.6
Prices Received	16.4	74.4	8.9	-7.5	8.3	58.6	27.0	18.7
Number of Employees	20.9	63.4	15.8	-5.1	12.2	49.9	30.2	17.9
Average Employee Workweek	19.4	64.5	13.9	-5.5	10.8	51.5	31.3	20.4
Capital Expenditures	—	—	—	—	6.9	43.9	21.4	14.5

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, 2002.