



BUSINESS OUTLOOK SURVEY

March 2003

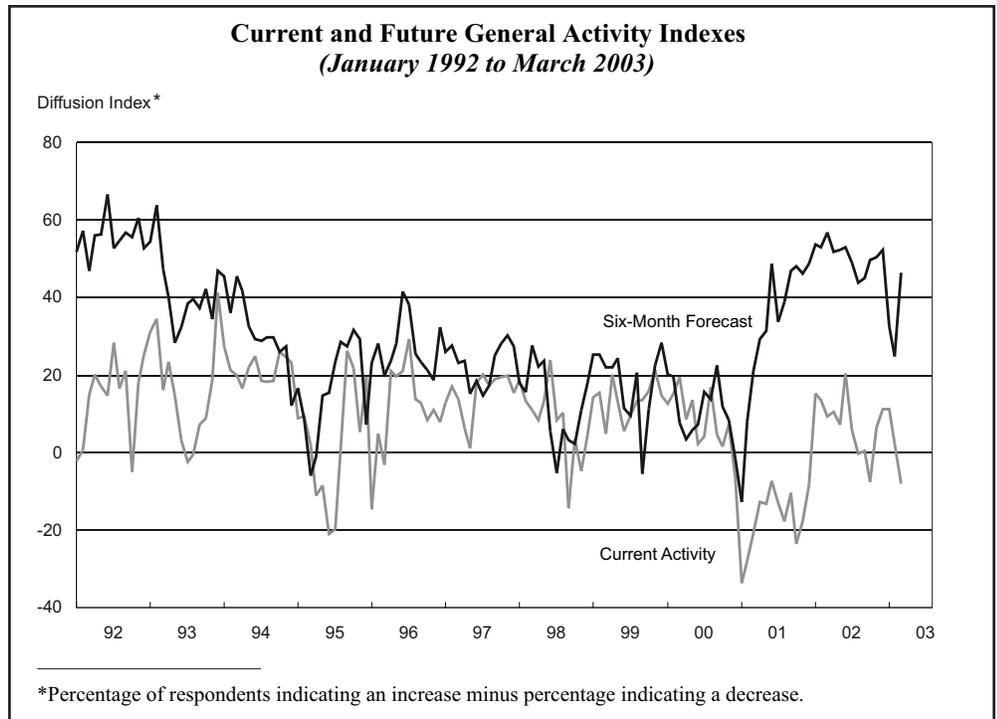
Activity in the region's manufacturing sector weakened in March, according to firms surveyed for this month's *Business Outlook Survey*. This represents a deterioration from the basically flat performance in February. Indexes for general activity and new orders declined from their readings in February, and most indicators have weakened over the past two months. Overall employment was reported lower this month, and average work hours also declined. Almost one-third of firms reported increases in input prices this month. There was, however, no accompanying increase in prices of manufactured goods. Despite the weakness in current conditions, expectations for growth over the next six months improved markedly this month.

Conditions Weaken This Month

The survey's broadest measure of manufacturing conditions, the current activity diffusion index, declined notably, from 2.3 in February to -8.0 this month. This is the third consecutive decline in the index and the first negative reading since October (see Chart). The index has dipped below zero twice before in the past two years, only to recover in the following month. The recent weakness in manufacturing is also reflected in the U.S. industrial production index for manufacturing, which registered a slight decline in the most current month available (February).

The index for new orders fell significantly from 14.1 in February to -4.3 this month, the first negative reading since December 2001. The indexes for delivery times and unfilled orders also point to continued weakness. Suggesting a less dramatic deterioration of activity, however, the current shipments index increased slightly this month, but its level, at just above zero, suggests nearly flat levels of shipments for the second consecutive month.

Employment in the region's manufacturing sector also registered larger declines this month. The current employment index, which fell from -0.9 to -8.8, is now at its lowest reading since August. The index of average hours also declined this month, falling to its lowest reading since December 2001. Responses to



special questions this month suggest that firms have delayed previously planned employment increases, probably because of geopolitical uncertainties (see discussion below).

Price Pressures Mount

Firms participating in the survey reported continued increases in prices of raw materials and other inputs this month. The current prices paid index increased for the third consecutive month and is now at its highest reading in 29 months. Although the survey does not specifically address the nature of price increases, higher prices for energy boosted national measures of price change at the intermediate goods and wholesale levels over the first two months of 2003.

Despite the higher costs noted by some firms, the prices received by area manufacturers were not reported to be higher. More firms reported decreases in prices this month (15 percent) than reported increases (9 percent). This month's prices received index fell back into negative territory, following three months of slightly

positive readings.

Looking ahead, firms expect a continuation of higher costs over the next six months. The future prices paid index is now at its highest reading in two and one-half years. Area manufacturers expect to see some price increases for their own manufactured goods: over 23 percent of the firms expect to see higher prices for their products over the next six months, and the future prices received index increased substantially this month.

Six-Month Indicators Rebound

Despite the decline in current activity this month, expectations for future growth improved significantly in March. With the exception of employment, every indicator of future activity showed improvement. The index of future activity rebounded this month, following declines in the previous two months (see Chart). Similar increases were recorded in indexes for future new orders and shipments. Firms also expect unfilled orders to increase and delivery times to lengthen over the next six

months. The future inventories index suggests that firms expect inventories to rise from current levels: the future inventories index rose to its highest reading in 11 months.

The improved outlook, however, did not carry over to firms' expectations for future employment. Although more firms expect to increase employment than expect to decrease it, the future employment index declined almost 10 points this month and is now at 6.5. The average workweek index increased marginally, however, to 10.4. In response to special questions this month, 33 percent of firms indicated that they have delayed hiring since the beginning of the year (see *Special Questions*). Most firms that expect to add workers this year indicated that hiring would take place in the second and third quarters rather than in the fourth.

The outlook for capital spending showed some improvement. The future capital spending index rose from 12.9 to 20.5, its highest reading in four months. Although 48 percent of firms indicated that they have delayed capital spending plans since the beginning of the year, the largest percentage of firms expect increases to occur in the second and third quarters.

Summary

Overall manufacturing conditions in the region weakened this month, as indicators of current performance declined from their

Special Questions (March 2003)

For the remainder of 2003 do you plan to:

add workers?42%
increase capital spending?32%

If yes,

	Q2	Q3	Q4
in which quarter(s) will you <i>add</i> workers?	64%	67%	24%
in which quarter(s) will you <i>increase</i> capital spending?	64%	76%	32%

Notes: Percentages exceed 100% because firms could choose more than one quarter in which an increase is expected to occur.

When this same question was posed in December, firms indicated the following employment plans for this year: first quarter (30%); second quarter (63%); third quarter (35%); and fourth quarter (23%).

Since the beginning of the year, have you changed the timing:

	Delayed	Accelerated	Not changed
for adding workers?	33%	9%	57%
for increasing capital spending?	48%	5%	48%

February readings. Area manufacturers reported virtually flat shipments this month, and growth of new orders halted. Employment losses were also somewhat greater this month, and firms indicated that both hiring and capital spending increases have been delayed since the

beginning of the year. Despite the weakness in current activity, firms' expectations for the next six months improved notably this month; apparently firms anticipate that the current slump in manufacturing will be short-lived.

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Summary of Returns

March 2003

Special Note: Beginning this month, the Summary of Returns table will include the previous month's diffusion index for each indicator. Also, the order of the columns for "increase" and "decrease" has changed.

March vs. February

Six Months from Now vs. March

	Previous Diffusion Index	March vs. February			Diffusion Index	Six Months from Now vs. March			Diffusion Index	
		Increase	No Change	Decrease		Increase	No Change	Decrease		
What is your evaluation of the level of general business activity?	2.3	15.8	60.3	23.8	-8.0	24.7	59.7	21.0	13.4	46.4
Company Business Indicators										
New Orders	14.1	24.2	47.3	28.5	-4.3	29.2	59.6	23.1	14.2	45.4
Shipments	0.0	26.6	47.7	25.7	0.9	28.5	56.1	24.2	13.6	42.5
Unfilled Orders	-9.1	12.4	65.7	21.9	-9.5	0.1	26.1	52.7	13.9	12.3
Delivery Times	-15.5	9.3	75.0	14.7	-5.5	-3.5	18.4	57.4	11.8	6.5
Inventories	-15.7	12.1	63.6	22.6	-10.5	-3.8	27.6	45.8	20.9	6.7
Prices Paid	16.2	31.3	60.3	6.1	25.1	35.5	47.6	40.1	4.5	43.1
Prices Received	2.2	8.9	76.1	15.0	-6.2	4.9	23.2	67.2	3.9	19.3
Number of Employees	-0.9	9.7	71.0	18.4	-8.8	16.0	22.1	54.1	15.6	6.5
Average Employee Workweek	-5.1	6.3	75.0	18.7	-12.4	6.8	22.5	58.3	12.1	10.4
Capital Expenditures	—	—	—	—	—	12.9	24.5	40.9	4.0	20.5

- 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 March 13, 2003.