



# BUSINESS OUTLOOK

## SURVEY

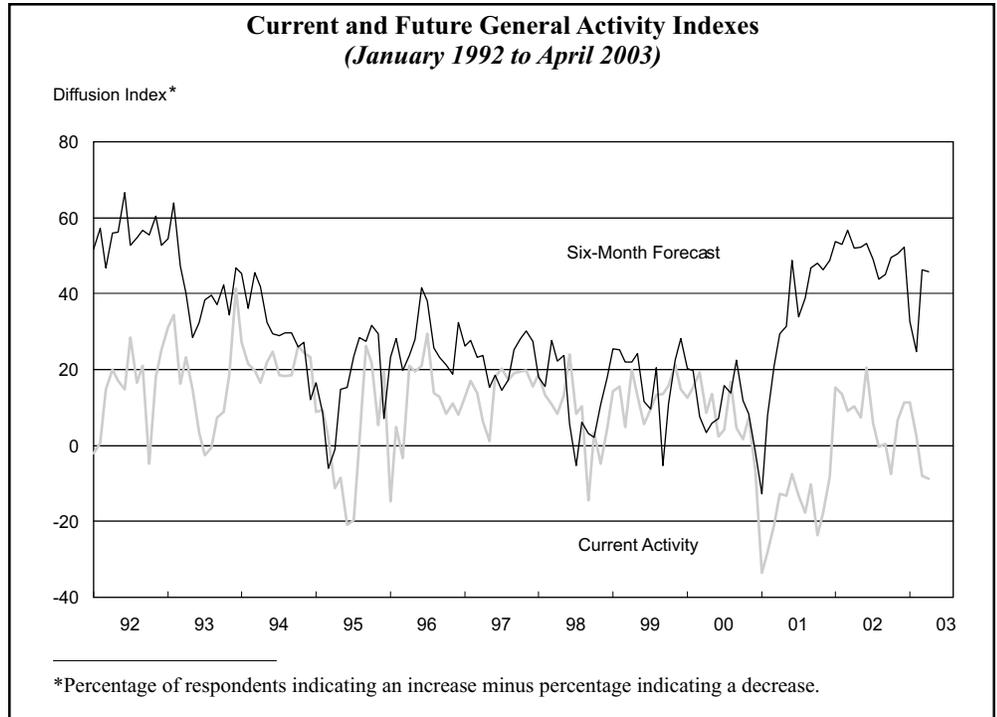
April 2003

The region's manufacturers report weaker activity for the second consecutive month. Indexes of general activity, new orders, and shipments all declined this month. Firms surveyed also reported declines in employment. The manufacturers reported increases in input prices again this month, and a growing percentage reported higher prices for their own manufactured goods. Despite the current weakness in manufacturing, most future indicators, which reflect expectations for the next six months, suggest a fairly high degree of optimism.

### Current Indicators Show No Improvement

The survey's broadest measure of manufacturing conditions in the region, the index of general business activity, declined slightly this month. This represents the fourth consecutive monthly decline in the index and the second consecutive month it has been below zero (see Chart). This is also the first time since December 2001 that the index has remained negative for two consecutive months. The recent weakness in manufacturing is also reflected in the U.S. industrial production index for manufacturing, which registered declines in the most recent two months available (February and March).

Both the current new orders index and shipments index recorded notable declines this month. The new orders index fell almost 7 points, after falling more than 18 points last month. In response to special questions this month, 25 percent of the firms reported declines in new orders attributable to the beginning of the war (see *Special Questions*). Of those reporting some effects of the war on new orders, more than three-quarters reported that the declines were slight or moderate, but 14 percent indicated that they



were substantial. The shipments index fell below zero for the first time since December 2001. Negative indexes for delivery times and unfilled orders confirm the weakness in manufacturing. The unfilled orders index fell to its lowest reading in six months.

### Some Higher Prices Reported

The manufacturing firms surveyed reported continued increases in the prices of inputs this month. But the current prices paid index, which reached its highest reading in 29 months in March, moderated slightly in April. About 29 percent of the firms reported higher input prices this month, which is only slightly lower than the 31 percent that reported higher prices in March. Although the recent rise in the prices paid index is largely due to the rise in energy prices, other prices are rising as

well. Thirty-four percent of the firms in our survey reported that average prices of non-energy materials have risen since the beginning of the year (see *Special Questions*).

There was a notable rise this month in the prices received index, which turned positive again after a negative reading in March. This month's prices received index is at its highest reading in two years. Nevertheless, a small percentage of the firms surveyed are still experiencing price declines for their products, and 76 percent of the firms reported that the prices of their manufactured goods were steady.

Looking ahead, firms expect a continuation of higher costs over the next six months. But the future prices paid index fell substantially after reaching its highest reading in two and one-half years last month. The decline probably reflects

## Special Questions (April 2003)

Have you experienced declines in new orders attributable to the beginning of the war?

Yes ..... 25%                      No ..... 75%

If yes, have declines been:

Slight ..... 29%                      Substantial ..... 14%  
Moderate ..... 48%                      No response ..... 9%

On average, prices for non-energy materials since the beginning of the year have:

Decreased ..... 2%  
Not changed ..... 64%  
Increased ..... 34%

expectations of a fallback in energy prices. The future prices received index, however, remained near its reading last month, with nearly 30 percent of the firms expecting increases in the prices of their manufactured goods over the next six months.

### Expectations Are Little Changed And Optimistic

Despite weaker manufacturing conditions in April, expectations remain

optimistic and have changed little from last month. The future general activity index, which increased substantially from February to March, declined only slightly this month (see Chart). The percentage of firms expecting increases in activity over the next six months (59 percent) is significantly greater than the percentage expecting declines (13 percent). Indicators for future shipments and new orders increased slightly this month.

Forecasts for employment also improved this month. The future employment index recorded its best reading in five months. On balance, firms expect average work hours to increase over the next six months. The future capital spending index moderated slightly in April, but its current reading (17.6) is slightly above its average of the past 12 months.

### Summary

The regional manufacturing sector continued to weaken in April, as evidenced by negative readings of the activity, new orders, shipments, and employment indexes. Pressures continued on input prices but moderated slightly from the previous month. More firms reported increases in their own manufactured goods prices this month. Despite the current weakness, manufacturing firms continue to anticipate increases in activity over the next six months, and their employment plans improved this month.

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### Summary of Returns

April 2003

	Previous Diffusion Index	April vs. March				Previous Diffusion Index	Six Months from Now vs. April			
		Increase	No Change	Decrease	Diffusion Index		Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	-8.0	19.5	52.1	28.3	<b>-8.8</b>	46.4	59.0	24.2	13.2	<b>45.8</b>
<b>Company Business Indicators</b>										
New Orders	-4.3	22.1	44.7	33.2	<b>-11.2</b>	45.4	59.6	22.5	10.7	<b>48.9</b>
Shipments	0.9	26.8	40.7	32.5	<b>-5.7</b>	42.5	56.2	24.7	13.1	<b>43.1</b>
Unfilled Orders	-9.5	12.8	55.0	31.8	<b>-19.0</b>	12.3	28.2	55.5	12.5	<b>15.6</b>
Delivery Times	-5.5	9.0	72.7	15.1	<b>-6.1</b>	6.5	14.9	70.4	10.0	<b>4.9</b>
Inventories	-10.5	21.6	53.8	24.2	<b>-2.7</b>	6.7	18.8	54.9	22.3	<b>-3.5</b>
Prices Paid	25.1	29.2	63.6	6.4	<b>22.8</b>	43.1	28.2	55.0	7.8	<b>20.4</b>
Prices Received	-6.2	16.0	76.0	8.0	<b>8.0</b>	19.3	29.5	57.5	8.8	<b>20.7</b>
Number of Employees	-8.8	5.1	77.3	17.6	<b>-12.5</b>	6.5	26.8	58.5	10.2	<b>16.6</b>
Average Employee Workweek	-12.4	16.5	60.7	22.9	<b>-6.4</b>	10.4	20.2	62.5	10.0	<b>10.2</b>
Capital Expenditures	—	—	—	—	—	20.5	24.9	46.8	7.2	<b>17.6</b>

- 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 April 10, 2003.