



BUSINESS OUTLOOK

SURVEY

May 2003

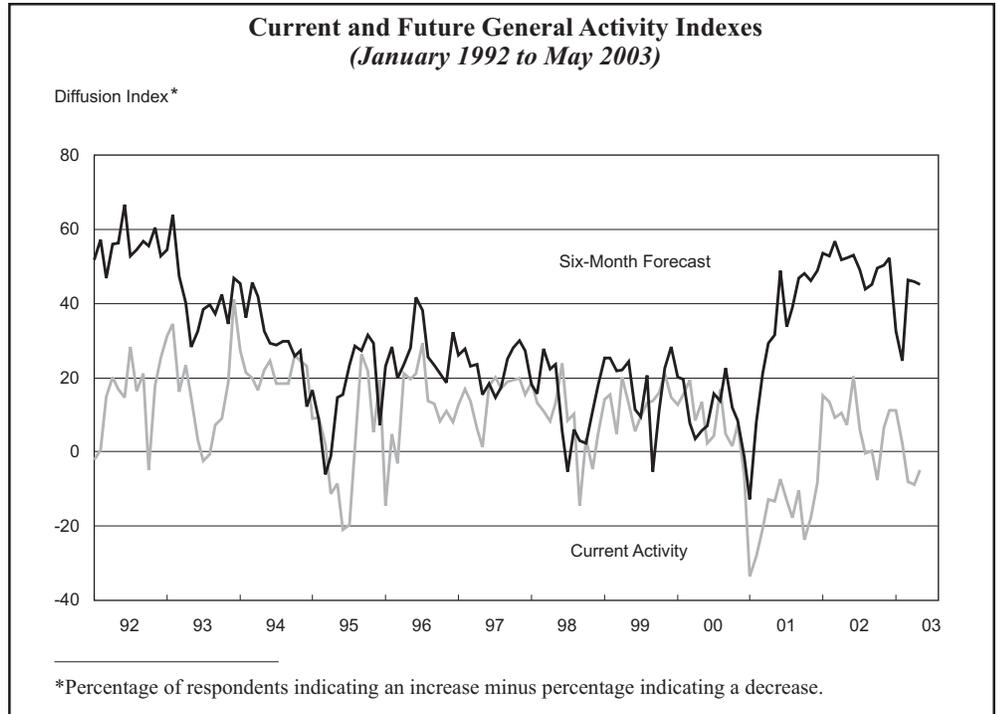
The region's manufacturers reported that activity was weak again this month, but there is some evidence that declines have diminished. Indexes of general activity, new orders, shipments, and employment remained negative but improved from their April readings. A smaller percentage of firms reported higher prices for inputs this month, and prices for manufactured goods were nearly steady. Most future indicators continue to suggest a fairly high degree of optimism for growth over the next six months, but the firms' outlook for employment and capital spending growth remains somewhat subdued.

Current Indicators Are Less Negative

The survey's broadest measure of regional manufacturing conditions, the index of general business activity, improved from -8.8 in April to -4.8 this month. The index, which has remained negative for three consecutive months, suggests an overall, albeit smaller, decline in activity this month (see Chart).

Indexes for current shipments and new orders showed a similar pattern this month. The current new orders index increased more than seven points but remained negative for the third consecutive month. Similarly, the current shipments index improved three points but remained negative for the second consecutive month. In special questions this month, firms were asked whether they have experienced any improvement in shipments or new orders associated with the ending of the war in Iraq (see *Special Questions*). Almost 17 percent of the firms indicated that they have experienced some improvements attributable to the end of hostilities in Iraq. Among those firms citing improvements because of the ending of the war, 33 percent indicated that the improvement was slight, and 60 percent indicated the improvement was moderate. Only 10 percent of the firms indicated that *their customers* had experienced an improvement in shipments or new orders associated with the ending of the war in Iraq.

Other indicators continued to point to the overall weakness in manufacturing conditions.



The indexes for delivery times and unfilled orders continued to be negative, confirming general weakness in manufacturing. The index for unfilled orders showed an increase of nearly 12 points, however. But the delivery times index decreased six points. Firms also continued to trim employment. The current employment index remained negative, although it improved marginally from April.

Price Pressures Moderate Substantially

Input price pressures moderated substantially this month, probably reflecting continued lower prices for fuel and other energy products. The current prices paid index fell nearly 14 points to its lowest reading in 13 months. Only 13 percent of firms noted higher input prices this month, compared with 29 percent indicating higher input prices last month. Firms also reported near steady prices for their manufactured goods. The prices received index, at 2.1, fell six points. Firms'

expectations regarding future price increases for their own manufactured goods also moderated substantially this month. The future prices received index, reflecting expectations for the next six months, decreased more than 17 points to its lowest reading since February.

Six-Month Forecasts Are Guardedly Optimistic

Firms' six-month forecasts remained generally optimistic this month. The future general activity index was essentially unchanged and remains at a relatively high level (see Chart). The percentage of firms expecting increases in activity over the next six months (56 percent) is significantly greater than the percentage expecting declines (11 percent). Indicators for future new orders and shipments increased slightly this month. With regard to production plans for the second half of 2003, however, nearly 44 percent of the firms indicated that their outlook had worsened since the beginning

of the year, and only 5 percent indicated an improvement (see *Special Questions*).

Forecasts for employment and capital spending weakened this month. After attaining a five-month high in April, the future employment index was nine points lower this month. The future capital spending index also fell nine points, after showing some improved readings over the previous three months.

Summary

Manufacturing conditions in the region remain weak, although some indicators showed modest improvement from their readings in April. There were slight declines in new orders and shipments this month. Some early evidence of post-war improvement was provided—17 percent of firms reported an improvement in shipments or new orders associated with the ending of the war, although 83 percent saw no improvement. Firms reported continued declines in employment this month, however. Fewer firms reported increases in prices for inputs this month, and the prices paid index dropped significantly. Prices of manufactured goods are virtually steady this month. Expectations remain generally optimistic, although expectations for employment and capital spending are subdued.

Special Questions (May 2003)

Have you experienced any improvements in shipments or new orders associated with the ending of the war in Iraq?

Yes 16.9%
 No 83.1%
Total 100.0%

If yes, how much improvement:

Slight 33.3%
 Moderate 60.0%
 Significant 6.7%
Total 100.0%

Have any of your customers noted improvement in shipments or new orders associated with the ending of the war in Iraq?

Yes 10.3%
 No 89.7%
Total 100.0%

Since January, has the outlook for production at your firm for the second half of 2003:

Gotten worse 43.8%
 Not changed 51.7%
 Increased 4.5%
Total 100.0%

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Summary of Returns

May 2003

	Previous Diffusion Index	May vs. April			Diffusion Index	Previous Diffusion Index	Six Months from Now vs. May			Diffusion Index
		Increase	No Change	Decrease			Increase	No Change	Decrease	
What is your evaluation of the level of general business activity?	-8.8	20.1	54.9	24.9	-4.8	45.8	56.0	32.2	10.8	45.2
Company Business Indicators										
New Orders	-11.2	26.2	43.8	30.0	-3.8	48.9	60.0	26.8	9.3	50.7
Shipments	-5.7	21.9	54.0	24.2	-2.3	43.1	59.1	28.6	12.3	46.8
Unfilled Orders	-19.0	12.5	67.3	19.8	-7.4	15.6	23.4	61.7	10.5	12.9
Delivery Times	-6.1	4.4	77.8	16.8	-12.5	4.9	11.3	72.6	10.2	1.0
Inventories	-2.7	15.3	61.5	22.6	-7.3	-3.5	19.0	54.2	23.0	-4.0
Prices Paid	22.8	13.4	81.9	4.5	8.9	20.4	35.6	55.1	8.2	27.3
Prices Received	8.0	10.3	81.5	8.2	2.1	20.7	19.4	60.3	16.0	3.4
Number of Employees	-12.5	7.8	73.4	18.7	-10.9	16.6	24.6	55.1	17.1	7.5
Average Employee Workweek	-6.4	10.0	68.8	19.1	-9.1	10.2	25.6	59.5	9.9	15.7
Capital Expenditures	—	—	—	—	—	17.6	25.4	38.2	17.0	8.4

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 May 10, 2003.