



# BUSINESS OUTLOOK SURVEY

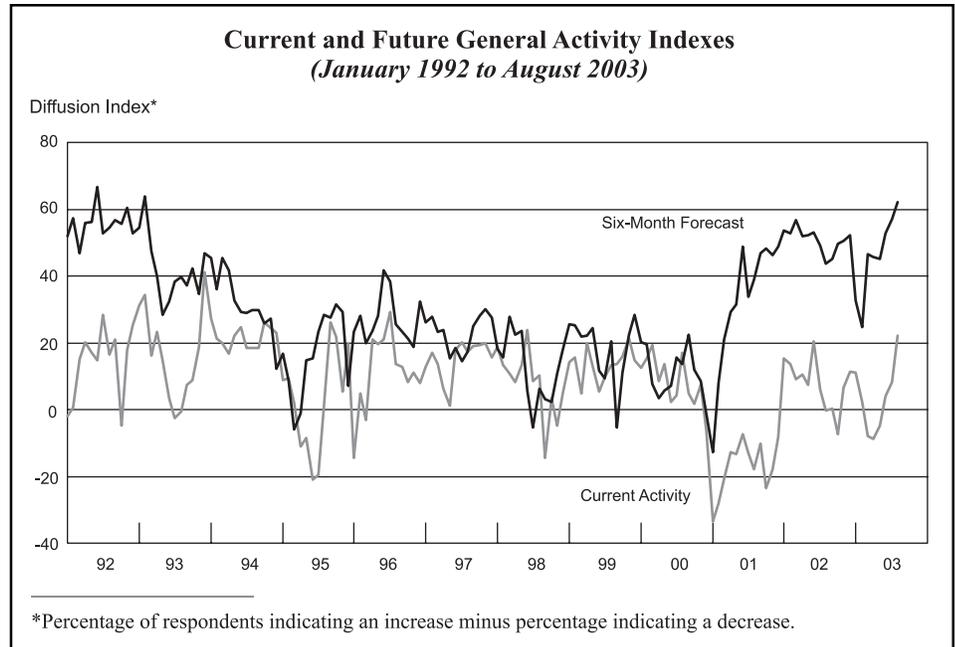
August 2003

Activity in the region's manufacturing sector improved notably this month, according to firms surveyed for the Philadelphia Fed's *Business Outlook Survey*. Most indicators of current business improved this month, but overall manufacturing employment declined. Firms reported an increase in input prices this month but near steady prices for their own manufactured goods. Most future indicators suggest that manufacturing executives expect growth in the industry over the next six months.

## Demand Is on the Rise

The diffusion index of current activity increased notably this month, from 8.3 in July to 22.1 in August. The general activity index was negative from March through May but has now been positive for three consecutive months (see Chart). Indexes for shipments and new orders increased this month, and both have registered positive readings for the second month in a row. The new orders index increased 4 points this month, and it has now risen 15 points over the past two months. The current shipments index increased 7 points this month and has risen more than 17 points over the past two months. Unfilled orders and delivery times were reported steady this month—both diffusion indexes are near zero. The current inventory index remained positive for the third consecutive month, increasing slightly from its July reading.

Despite the pickup in overall activity, shipments, and new orders, more firms than normal scheduled plant shutdowns and production slowdowns over the past several months (see **Special Questions**). Thirty-six percent of the firms indicated that they regularly schedule plant shutdowns or production slowdowns during summer months, but 45 percent indicated they did so this year. For those reporting shutdowns



this year, around 40 percent indicated that the production decreases were greater than usual. The most common reasons given for scheduled reductions were demand conditions, plant maintenance, and summer vacations.

The purported improvement in manufacturing conditions this month is not yet resulting in increased employment at the region's manufacturing plants. More firms reported declines in employment (20 percent) than reported increases (11 percent), and the current employment index fell from 0.8 in July to -8.7 this month. The diffusion index for the average workweek, however, remained positive for the second consecutive month.

## Input Price Index Is Higher

Firms reported higher input prices this month but near steady prices for their own

manufactured goods. The diffusion index for current prices paid jumped from -6.5 in July to 16.0 this month, with 23 percent of firms reporting higher input prices. However, the prices paid index had dropped 29 points from April to July, reaching its lowest reading in 19 months. Despite higher input prices, firms reported little upward pressure on the prices of their own manufactured goods this month. The largest percentage of firms (83 percent) reported no change in prices of their own manufactured goods, although the prices received index increased from -7.7 in July to 1.1 in August.

## Optimism Is Spreading

Accompanying improved readings for current activity, new orders, and shipments this month, the diffusion index for future economic activity rose from 56.9 in July to 62.0. The index is now at its highest reading

since February 1993 (see Chart). The future activity index has climbed over the past six months as fewer firms have reported they expect declines in manufacturing. This month no firms reported they expect declines. Similar optimism is reflected in the outlook for growth in new orders and shipments. On balance, firms expect the level of unfilled orders to increase over the next six months but delivery times to hold steady.

The outlook for employment and capital spending was slightly less optimistic this month than last. Although 60 percent of the manufacturing executives expect growth in new orders over the next six months, only 28 percent expect to increase employment, and 20 percent expect to increase capital spending.

### Summary

Indicators over the past several months have suggested that the region's manufacturing sector is on the mend. Firms reported the second consecutive month of increases in new orders and shipments. Although the firms surveyed reported a rise

<b>Special Question (August 2003)</b>			<b>Yes</b>	<b>No</b>
Do you normally schedule plant shutdowns or production slowdowns during the summer months?	36%		64%	
Did you schedule plant shutdowns or production slowdowns during the summer months this year?	45%		55%	
<b>If yes, which of the following best characterizes your situation for this June, July, and August?</b>				
	<b>June</b>	<b>July</b>	<b>August</b>	
Production decreases greater than usual	41%	37%	44%	
Production decreases about the same as usual	50%	56%	44%	
Production decreases less than usual	9%	7%	12%	

*NOTE: Firms were asked what the major reasons were for the shutdowns/slowdowns. The most commonly mentioned specific reasons were demand related (53 percent), maintenance (19 percent), and vacations (19 percent). Some firms listed several reasons.*

in input prices this month, prices of their manufactured goods remained steady. Manufacturing executives' outlook for overall activity has continued to improve in recent

months, but their expectations for growth in employment and capital spending have not yet shown significant improvement.

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### Summary of Returns

August 2003

	Previous Diffusion Index	August vs. July				Previous Diffusion Index	Six Months from Now vs. August			
		Increase	No Change	Decrease	Diffusion Index		Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	8.3	33.2	55.8	11.1	<b>22.1</b>	56.9	62.0	37.2	0.0	<b>62.0</b>
Company Business Indicators										
New Orders	10.4	31.2	52.1	16.6	<b>14.6</b>	58.7	59.7	34.3	1.8	<b>57.9</b>
Shipments	9.1	33.1	50.1	16.8	<b>16.3</b>	49.4	60.1	32.3	4.0	<b>56.1</b>
Unfilled Orders	3.5	16.6	66.3	15.5	<b>1.1</b>	27.3	24.7	68.7	4.2	<b>20.5</b>
Delivery Times	-5.0	9.9	80.7	9.4	<b>0.5</b>	-0.4	14.8	69.3	13.9	<b>0.9</b>
Inventories	5.4	18.6	69.1	12.2	<b>6.4</b>	-4.3	17.1	64.5	14.2	<b>2.9</b>
Prices Paid	-6.5	23.2	69.1	7.2	<b>16.0</b>	22.7	27.9	60.6	8.5	<b>19.4</b>
Prices Received	-7.7	8.5	82.5	7.5	<b>1.1</b>	8.8	18.9	68.3	10.7	<b>8.3</b>
Number of Employees	0.8	11.2	68.9	19.9	<b>-8.7</b>	21.9	27.5	58.3	9.2	<b>18.3</b>
Average Employee Workweek	5.1	15.0	72.9	10.3	<b>4.7</b>	23.2	25.7	65.4	3.9	<b>21.8</b>
Capital Expenditures	—	—	—	—	—	15.6	20.4	55.3	5.8	<b>14.6</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 August 12, 2003.