



BUSINESS OUTLOOK

SURVEY

June 2001

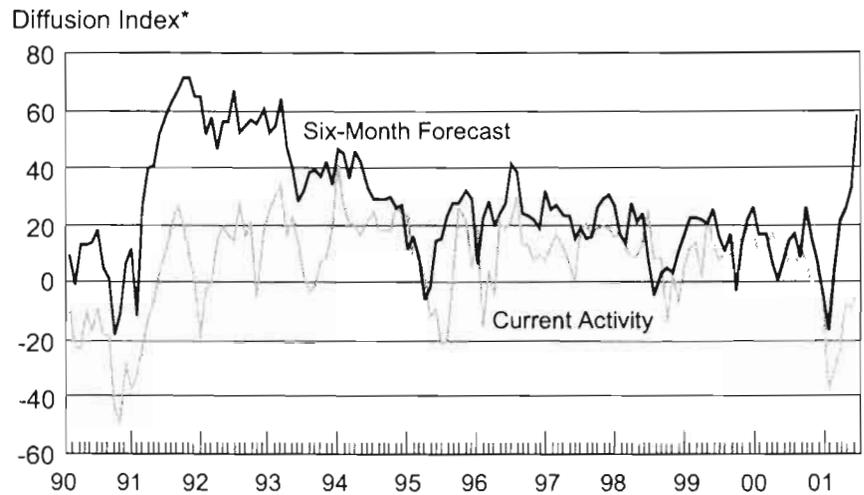
The region's manufacturing firms report continued weakness in business conditions. Survey participants report declines in new orders and employment again this month and no growth in shipments. Although there appear to be no overall increases in prices of survey respondents' finished goods, the percentage of firms reporting higher input prices increased this month. Firms' forecasts have improved significantly in recent months, suggesting that business will recover from current depressed levels over the next six months.

Little Improvement Reported

The diffusion index of current activity remained negative this month, although it improved from -8.8 in May to -3.7 (see Chart). The percentage of firms reporting decreases in business activity (31 percent) exceeded the percentage reporting increases (28 percent) for the seventh consecutive month. The decline in the current activity index was accompanied by declines in other indicators of monthly economic performance. The current new orders index declined from -4.8 in May to -9.3 this month; more than 35 percent of firms reported declines in new orders, and 26 percent reported increases. The shipments index also fell to a slightly negative reading, declining from 3.7 in May to -0.8 this month. Delivery times continued to shorten and unfilled orders decreased. Inventories fell: the percentage of firms reporting declines (37 percent) exceeded the percentage reporting increases (18 percent).

Chart

*Current and Future Manufacturing Activity Indexes
(January 1990 to June 2001)*



* Percentage of respondents indicating an increase minus percentage indicating a decrease

The survey's labor market indicators reflect continued weakness in the manufacturing sector. The current employment index, which has now remained negative for eight consecutive months, fell from -11.1 in May to -14.3 this month. Firms also report declines in average work hours: the current average workweek index fell from -14.6 to -16.8.

Input Price Increases Reported

The current prices paid index showed a notable rise this month, increasing from 1.5 in May (a 27-month low) to 17.8. This marks

the highest reading since last November. Still, nearly 62 percent of firms reported no change in prices of inputs this month. And although respondents indicated upward pressure on input prices, they reported that prices of final manufactured goods were experiencing no upward pressure. The percentage of firms reporting price declines (15 percent) exceeded the percentage reporting increases (11 percent) for the eighth consecutive month. The current prices received index fell from -2.2 in May to -4.0 in June.

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Six-Month Forecasts Suggest Recovery

Despite weakness in current activity, the outlook for manufacturing conditions over the next six months continues to improve. The index of future general activity increased from 33.1 in May to 58.2 in June. Sixty-three percent of the firms surveyed expect increases in overall business over the next six months, and only 5 percent expect decreases. Indicators for both future new orders and shipments improved notably this month: the future new orders index increased from 41.1 in May to 55.8, and the future shipments index increased from 28.8 to 47.6.

Firms are less optimistic about

employment than they are about business growth in general. While over 63 percent expect growth in overall business and new orders, only 29 percent of the firms anticipate growth in employment over the next six months. The future employment index increased slightly, from 9.6 in May to 12.6 in June. One dim forecast concerns capital expenditures. The percentage of firms expecting growth in capital expenditures over the next six months is equal to the percentage expecting decreases (17 percent). Moreover, the future capital expenditures index fell from 8.4 in May to 0.1 in June and has remained at relatively low levels since January.

Summary

Most indicators of current economic performance suggest continued decline in the region's manufacturing sector this month. Survey participants continue to report decreases in the levels of general activity, new orders, employment, and average work hours. Although prices of final manufactured goods show no upward pressure, a higher percentage of firms reported increased input prices this month. With the exception of planned capital spending, the survey's future indicators displayed optimism, suggesting that manufacturing activity may show improvement by the end of this year.

BUSINESS OUTLOOK SURVEY

**Summary of Returns
June 2001**

	June vs. May				Six Months from Now vs. June			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	31.2	40.9	27.5	-3.7	5.0	25.0	63.2	58.2
Company Business Indicators								
New Orders	35.2	38.0	26.0	-9.3	7.4	25.8	63.3	55.8
Shipments	30.1	40.6	29.3	-0.8	10.7	25.9	58.2	47.6
Unfilled Orders	28.5	51.7	18.0	-10.5	17.7	53.5	26.3	8.7
Delivery Times	23.2	63.4	11.5	-11.7	17.3	64.4	14.4	-2.9
Inventories	37.3	43.9	17.7	-19.6	30.8	51.3	14.9	-15.9
Prices Paid	9.3	61.6	27.1	17.8	9.2	58.5	26.0	16.7
Prices Received	15.0	72.0	11.0	-4.0	11.7	64.6	20.3	8.6
Number of Employees	25.4	61.9	11.1	-14.3	16.5	52.1	29.1	12.6
Average Employee Workweek	30.4	51.5	13.7	-16.8	18.5	43.9	33.3	14.8
Capital Expenditures	—	—	—	—	16.8	49.7	16.9	0.1

- Notes: (1) Items may not add up to 100 percent because of omission by respondents.
 (2) All data seasonally adjusted.
 (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease.
 (4) Survey results reflect data received through June 10, 2001.