



# BUSINESS OUTLOOK

## SURVEY

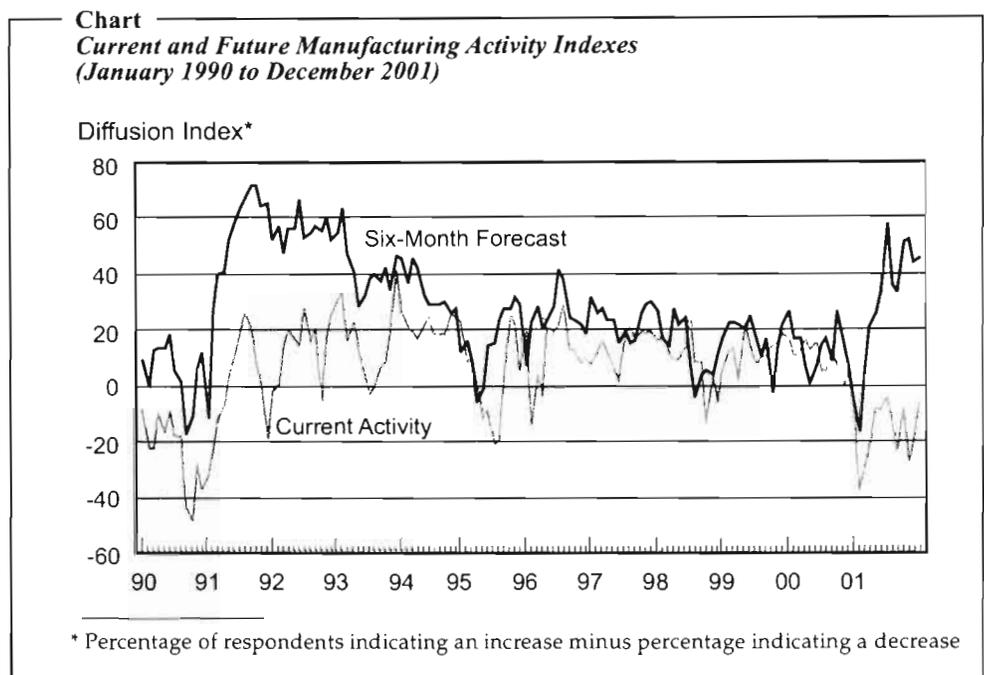
### December 2001

*Business Outlook Survey* indicators improved this month even though the percentage of firms reporting decreases in activity exceeded the percentage reporting increases for the 13th consecutive month. Indicators for new orders and shipments suggest less dramatic declines this month than last; employment indicators showed no improvement. Expectations for growth over the next six months remain high, and capital expenditure plans improved.

#### Current Indicators Hint at Lesser Declines

Although the diffusion index of current general activity remained negative, it improved markedly from -20.2 in November to -5.5 (see Chart). More firms reported declines in current activity (31 percent) than increases (26 percent). The improvement in the current activity index was accompanied by improvement in the indexes for new orders and shipments. The current new orders index increased from -15.7 in November to -3.8 this month, and the shipments index improved from -23.6 in November to -8.4. The unfilled orders index deteriorated, decreasing from -10.9 to -13.6, and the delivery times index improved only marginally. Inventories continued to decline, but the inventories index increased from -14.1 to -12.5, marking its highest reading in seven months and its third consecutive improvement.

The demand for labor continues to be weak. Current employment indicators did not improve from their November readings. The employment index, which has remained negative for 14 consecutive months, is virtually unchanged from November. Almost 32 percent of the firms reported declines in employment this month; only 9 percent



reported increases. The current average workweek index declined from -12.2 to -15.3 this month.

#### No Price Pressures Evident

Survey indicators continued to suggest diminished price pressures for both inputs and manufactured goods. For the sixth consecutive month, more firms reported declines in prices for inputs (21 percent) than increases (10 percent). But the current prices paid index was less negative this month (-11.6 versus -18.4 in November). The index had reached a historical low reading of -22.1 in October. Sixteen percent of the manufacturers reported lower prices for their own products this month, and only 1 percent reported higher prices. The prices received index, which has now been negative for 14 consecutive months, decreased marginally this month.

#### Firms' Forecasts Remain Optimistic

Expectations for future manufacturing growth continue to be favorable. The future general activity index, at 45.5, is at about the same level as it was in November (see Chart). Slightly more than four times as many firms expect increases in activity over the next six months (59 percent) than decreases (14 percent). Although still strongly positive, indicators for future new orders and shipments declined somewhat from their November readings. Other indicators show signs of an expected pickup in business. The future delivery times index increased from 3.7 to 7.7, but the future unfilled orders index decreased from 18.1 in November to 5.0. While firms have been reporting their intentions to reduce inventories during the year, the future inventories index increased for the third consecutive month, moving up from -14.0 to -6.7 (the highest

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reading of the index in 11 months).

Survey participants were asked this month about their customers' inventory levels (see *Special Questions*). Over one-half of the firms indicated that their customers' inventories had decreased in the past several months; 13 percent expect their customers' recent inventory declines to be permanent. Forty-eight percent of these firms expect their customers to rebuild their inventories during the first half of next year, and 39 percent do not expect a buildup in their customers' inventories until the second half of next year.

Firms' expectations regarding employment are less encouraging than their outlook for future activity. Although almost 60 percent of the manufacturers expect business growth in the first half of 2002, only 24 percent expect to expand employment. Almost 18 percent of firms expect declines in employment. The future employment index decreased slightly, from 7.1 in November to 6.0 this month.

Capital expenditure plans have been subdued for most of this year but showed some signs of improvement this month. The future capital expenditures index increased from -1.2 in November to 13.5 this month, its highest reading since December of last year.

*Special Questions (December 2001)*

**Last month we asked about changes in firms' inventory plans, but this month we requested information about their customers' inventory situation.**

Over the past several months have your customers' inventory plans . . .

Increased .....	3%
Not Changed .....	42%
Decreased .....	55%
<b>Total .....</b>	<b>100%</b>

If your customers' inventory plans have been reduced, when do you expect them to start rebuilding?

First quarter 2002 .....	13%
Second quarter 2002 .....	35%
After second quarter 2002 .....	39%
Reductions expected to be permanent .....	13%
<b>Total .....</b>	<b>100%</b>

**Summary**

Most current indicators improved this month. Although conditions in the manufacturing sector continued to be weak, indicators for general activity, shipments, and new orders have improved in recent months. Despite this improvement, employment losses continue to be reported. Optimism about

growth in the manufacturing sector over the next six months remains high. There were some early signs of a possible near end to inventory reductions and a slight improvement in capital expenditure plans in 2002.

The 2002 *Business Outlook Survey* release schedule is now available at:  
<http://www.phil.frb.org/econ/bosschedule.html>.

**BUSINESS OUTLOOK SURVEY**

**Summary of Returns  
December 2001**

	December vs. November				Six Months from Now vs. December			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	31.4	38.9	25.8	-5.5	13.9	25.0	59.4	45.5
<b>Company Business Indicators</b>								
New Orders	31.6	36.8	27.9	-3.8	17.2	26.2	52.0	34.8
Shipments	34.6	36.9	26.2	-8.4	16.3	26.7	51.6	35.3
Unfilled Orders	24.8	64.1	11.1	-13.6	14.6	61.9	19.6	5.0
Delivery Times	17.1	70.1	8.0	-9.1	9.5	70.7	17.2	7.7
Inventories	29.7	52.1	17.3	-12.5	28.9	46.4	22.2	-6.7
Prices Paid	21.2	69.1	9.6	-11.6	9.8	62.5	24.8	15.0
Prices Received	16.1	83.1	0.8	-15.2	6.8	66.4	22.8	16.0
Number of Employees	31.9	59.4	8.7	-23.2	17.6	56.4	23.7	6.0
Average Employee Workweek	26.4	61.2	11.1	-15.3	14.2	47.4	31.3	17.1
Capital Expenditures	—	—	—	—	12.2	41.7	25.7	13.5

- 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 December 10, 2001.