



# BUSINESS OUTLOOK

## SURVEY

May 2002

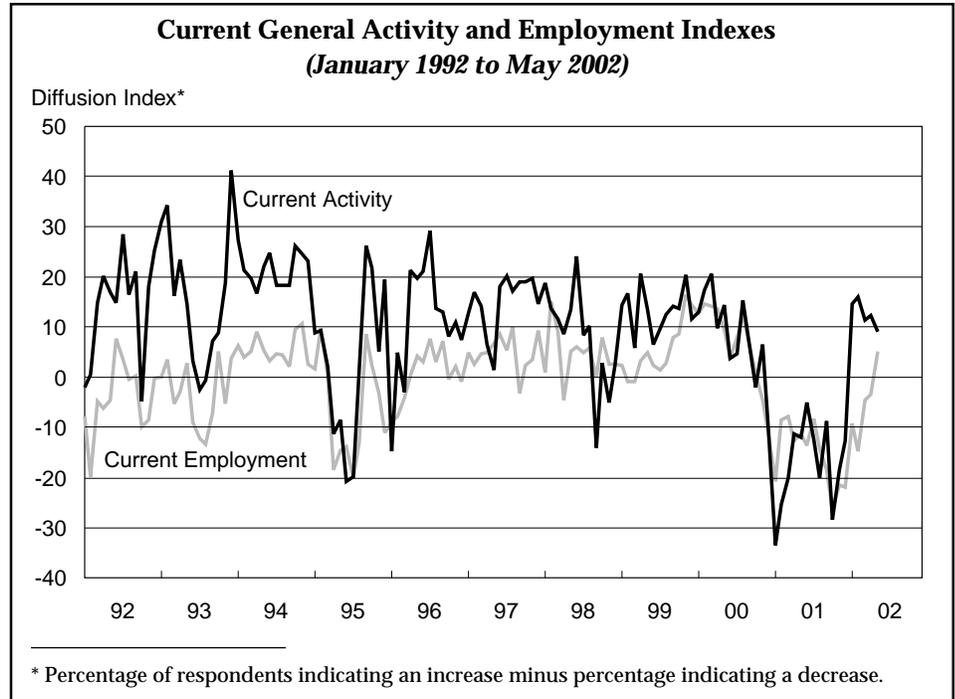
The region's manufacturing sector is continuing its recovery. Most of the survey's indexes of current performance indicate another month of expansion, although several indicators were lower than their readings in the previous month. Indicators of manufacturing employment, however, showed signs of improvement this month. The region's manufacturing executives remain generally optimistic that business conditions will improve over the next six months.

### Indicators Fall Back Slightly

The diffusion index of current activity remained positive this month, although it decreased slightly from 12.3 in April to 9.1 (see chart). The percentage of firms reporting increases in business activity (29 percent) exceeded the percentage reporting decreases (19 percent) for the fifth consecutive month.

Most of the other broad indicators remained positive. Like the general activity index, the current new orders index fell slightly from its April reading, declining from 12.8 to 10.2. The current shipments index edged slightly higher, increasing from 16.4 in April to 17.3 this month. Both the unfilled orders and delivery times indexes were negative this month, indicating overall declines in unfilled orders and faster deliveries to customers. Inventories were reported to be lower again this month—the current inventories index fell from -10.4 in April to -18.3.

Manufacturing employment showed signs of improvement in this month's survey. Although nearly 71 percent of the firms reported no change



in employment, for the first time in 19 months the percentage of firms reporting increases (17 percent) was greater than the percentage reporting decreases (12 percent). The diffusion index for employment increased from -3.5 to 5.1 and has shown steady improvement over recent months (see chart). The diffusion index for the current average workweek also improved, increasing from -3.3 in April to 2.5 in May.

### Price Indexes Show Upward Drift

The percentage of firms reporting a rise in input prices (21 percent) was higher than the percentage reporting a decrease (2 percent) for the third consecutive month. The diffusion index for prices paid increased notably from 7.5 in April to 19.7 this month, its highest

reading since November 2000. Nevertheless, 80 percent of the firms reported no change in input prices.

Prices of manufactured goods are reported near steady this month. Nonetheless, the percentage reporting higher prices (13 percent) was greater than the percentage reporting lower prices (6 percent) for the third consecutive month. The diffusion index for prices received increased from 2.1 in April to 7.3 this month.

### Six-Month Expectations Remain Optimistic

Area manufacturers continue to be optimistic about improvement in business conditions over the next six months. Nearly 62 percent of the firms expect increases in business activity over

the next six months; only 10 percent expect decreases. The index of future general activity increased from 48.3 in April to 51.3 this month. Indicators for future new orders and shipments also improved this month: the future new orders index increased from 52.9 to 60.8, and the future shipments index increased from 43.6 to 50.3. Firms are near evenly divided between those expecting increases and those expecting decreases in inventories over the next six months (see *Special Questions*).

Expectations regarding employment continued to be less optimistic than expectations in general. Although two-thirds of the firms expect increases in new orders over the next six months, only 34 percent expect increases in employment. The diffusion index for future employment edged slightly lower this month, declining from 23.9 in April to 20.6. On balance, firms expect the average workweek to increase over the next six months, but the future workweek index also decreased slightly, from 21.7 to 17.2.

Firms' expectations for capital spending also diminished this month.

### Special Questions (May 2002)

Over the next six months, finished goods inventories and capital spending are expected to:

	<u>Inventories</u>	<u>Capital Spending</u>
Decline more than 10 percent	11.2%	7.9%
Decline 5-10 percent	13.5%	4.5%
Decline less than 5 percent	6.7%	2.2%
Stay at current levels	40.5%	53.9%
Increase less than 5 percent	11.2%	6.7%
Increase 5-10 percent	12.4%	12.4%
Increase more than 10 percent	4.5%	12.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The diffusion index for future capital spending decreased from 16.3 in April to 10.5. In response to special questions this month, more than one-half of the manufacturers polled said that they plan to maintain steady capital spending over the next six months (see *Special Questions*). Among those firms responding to our special questions, about 12 percent forecast spending increases of 10 percent or more over the next six months, and another 12 percent forecast capital spending to increase between 5 and 10 percent.

### Summary

Manufacturing activity in the region continues to improve. Indicators for general activity, new orders, and shipments remained positive for the fifth consecutive month, and the survey's employment index suggests some employment growth this month. Firms remain optimistic about growth in the manufacturing sector over the next six months, although the outlook for employment and capital spending waned somewhat this month.

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### Summary of Returns May 2002

	May vs. April				Six Months from Now vs. May			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	19.3	51.8	28.5	9.1	10.3	26.5	61.5	51.3
Company Business Indicators								
New Orders	22.6	44.3	32.8	10.2	5.7	24.5	66.5	60.8
Shipments	19.7	43.3	37.0	17.3	14.6	19.7	64.9	50.3
Unfilled Orders	28.0	52.9	19.1	-8.9	14.3	52.6	28.3	14.0
Delivery Times	15.7	78.0	5.3	-10.3	11.1	67.3	15.6	4.2
Inventories	32.9	52.6	14.5	-18.3	22.0	46.3	26.8	4.8
Prices Paid	1.6	77.1	21.3	19.7	3.6	58.2	37.3	33.7
Prices Received	5.8	80.1	13.1	7.3	6.3	61.9	29.1	22.8
Number of Employees	12.1	70.7	17.2	5.1	13.2	49.2	33.8	20.6
Average Employee Workweek	14.4	67.3	16.9	2.5	11.2	55.6	28.4	17.2
Capital Expenditures	—	—	—	—	10.6	41.6	21.1	10.5

- 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 May 10, 2002.