



BUSINESS OUTLOOK SURVEY

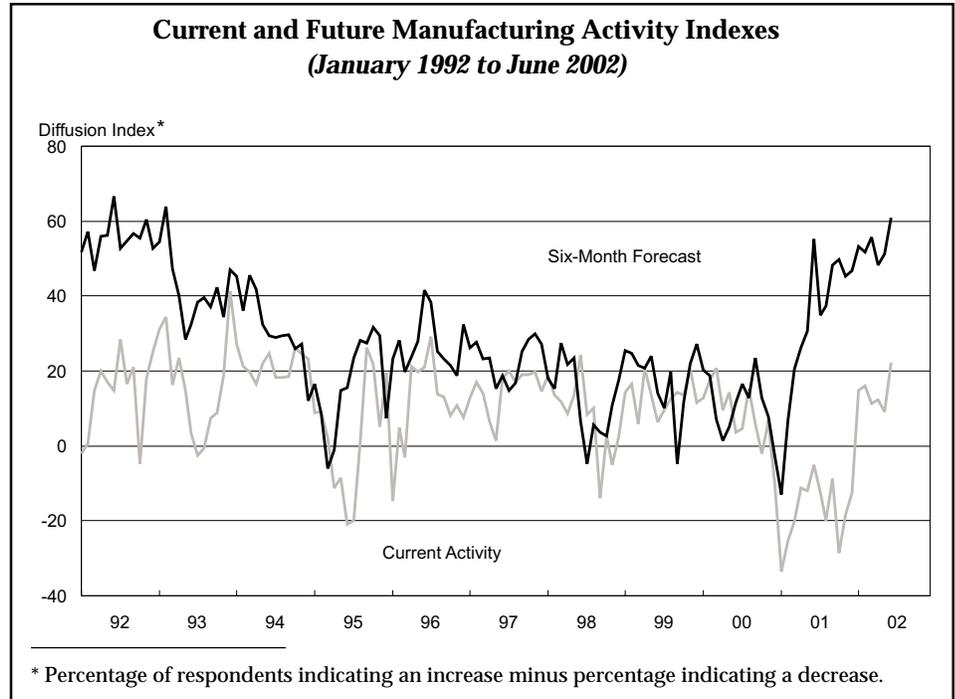
June 2002

Regional manufacturing activity improved for the sixth consecutive month, according to results from the June *Business Outlook Survey*. Indicators for general activity and new orders improved notably from their readings in May. The employment index, however, is lower this month. While the majority of manufacturers reported steady prices, a growing number of firms have reported price increases in recent months. Manufacturing executives in the region remain optimistic that business will continue to improve over the next six months.

Current Indicators Show Improvement

The diffusion index of current activity increased from 9.1 in May to 22.2 in June, its sixth consecutive positive reading and highest level since June 1998 (see chart). The percentage of firms reporting increases in activity (32 percent) exceeded the percentage reporting decreases (10 percent). The indicators for new orders also showed a notable rise in June. The new orders index rose from 10.2 in May to 20.1 this month. The current shipments index, however, fell slightly from 17.3 to 14.7. Still, other indicators reflect an expansion in business activity this month. The current unfilled orders index rose significantly from its May reading, increasing from -8.9 to 12.8. Nearly 24 percent of the firms reported a rise in unfilled orders this month; 11 percent reported a decline. Delivery times held steady in June: about the same percentage of firms reported longer delivery times (14 percent) as reported faster deliveries (12 percent). However, the current delivery times index increased from -10.3 in May to 1.6. Inventory declines were less this month: the current inventories index improved from -18.3 to -7.9.

The demand for labor continues to be weak despite the improvement in activity. The current employment index, at -2.0, fell back slightly from its reading of 5.1 in May



(its first positive reading in 19 months). Although almost 72 percent of the firms reported no change in employment, the percentage reporting a decline in employment (15 percent) was slightly larger than the percentage reporting an increase (13 percent). The average workweek index also receded slightly from 2.5 in May to -0.9 this month.

Price Indexes Continue Upward Drift

The percentage of firms reporting a rise in input prices this month (25 percent) was higher than the percentage reporting a decrease (2 percent). The diffusion index for current prices paid increased from 19.7 in May to 22.9 this month, its fourth consecutive positive reading since turning positive in March. Nevertheless, 71 percent of the respondents reported no change in the prices of inputs this month.

Prices of manufactured goods are also reported slightly higher this month. The

prices received index increased from 7.3 in May to 8.7, its fourth consecutive positive reading since turning positive in March. Overall, nearly 85 percent of the firms reported no change in the prices of their own manufactured goods, but the percentage reporting higher prices (12 percent) exceeded the percentage reporting lower prices (3 percent).

Manufacturers Remain Optimistic

Expectations for future manufacturing growth continue to be favorable. The future general activity index increased from 51.3 to 60.9 in June and remains at a relatively high level (see chart). Nearly 62 percent of the firms expect growth in overall business over the next six months, and only 1 percent expect deterioration. Indicators for expected new orders and shipments remain at high levels but have decreased somewhat from their May readings. The future new orders

index fell from 60.8 in May to 47.7, and the future shipments index fell from 50.3 to 45.1. Reflecting optimism regarding continued expansion, firms expect the level of unfilled orders to increase and delivery times to lengthen. Nearly the same percentage of firms expect declines in inventories over the next six months (30 percent) as expect increases (26 percent).

Increases in manufacturing business are expected to positively impact demand for labor, although firms' expectations regarding employment continue to be less optimistic than expectations in general. Nearly 26 percent of the firms anticipate hiring additional workers over the next six months; 13 percent expect to make cuts. The diffusion index for future employment, however, fell back slightly from 20.6 in May to 12.9 this month. On balance, firms expect increases in the average workweek, and unlike the future employment index, the future workweek index improved from 17.2 to 26.2.

Firms' expectations for future capital spending rose this month. The diffusion index for future capital expenditures rose from 10.5 in May to 20.2, its highest reading since the beginning of the year. In response to special questions, nearly 19 percent indicated that increases in technology spending were planned over the next six months, but 13 percent were planning

Special Questions (June 2002)

For the remainder of 2002, **technology spending** at your firm will:

Increase	18.7%
Remain at current levels	68.0%
Decrease	13.3%

If increases in technology spending are planned, are they:

More than originally planned at the beginning of the year	17.7%
About the same as originally planned at the beginning of the year	64.6%
Less than originally planned at the beginning of the year	17.7%

When will the planned spending increase predominantly take place?

Third quarter	46.9%
Fourth quarter	28.1%
Not until next year	25.0%

declines (see Special Questions). Among the 19 percent expecting increases, nearly 47 percent forecast that the rise would take place in the third quarter, and 28 percent indicated it would occur in the fourth quarter; 25 percent reported that a rise would not occur until next year.

Summary

Current manufacturing indicators for the region suggest a notable rise in general

activity and new orders this month. Indexes have remained positive for six consecutive months. Although manufacturing employment did not show a similar boost, job losses have apparently leveled off. A significant share of the firms report increases in input prices this month, and the survey's indexes for both prices paid and received have drifted higher this year. Firms remain optimistic about growth in the manufacturing sector over the next six months.

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Summary of Returns June 2002

	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?	10.1	57.6	32.3	22.2	0.8	30.3	61.7	60.9
Company Business Indicators								
New Orders	16.3	47.4	36.3	20.1	6.0	32.3	53.7	47.7
Shipments	16.0	53.4	30.6	14.7	9.4	28.8	54.5	45.1
Unfilled Orders	10.9	61.7	23.7	12.8	13.1	54.9	25.8	12.7
Delivery Times	12.3	73.8	13.9	1.6	6.4	70.6	16.7	10.3
Inventories	28.8	49.3	20.9	-7.9	29.8	38.7	25.9	-3.8
Prices Paid	2.4	70.9	25.3	22.9	3.6	54.2	36.6	32.9
Prices Received	3.3	84.7	12.0	8.7	5.2	62.3	27.8	22.6
Number of Employees	14.8	71.9	12.8	-2.0	12.9	54.7	25.8	12.9
Average Employee Workweek	13.3	65.5	12.4	-0.9	3.6	55.7	29.8	26.2
Capital Expenditures	—	—	—	—	5.1	43.1	25.3	20.2

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 June 13, 2002.