



# BUSINESS OUTLOOK SURVEY

February 2003

Activity in the region's manufacturing sector was mostly flat, according to firms surveyed for this month's *Business Outlook Survey*. Although one-third of firms reported higher new orders in February, one-fifth reported lower orders, and other indicators suggest no improvement this month. Expectations for growth diminished again in February, although manufacturing executives still expect conditions to improve over the next six months.

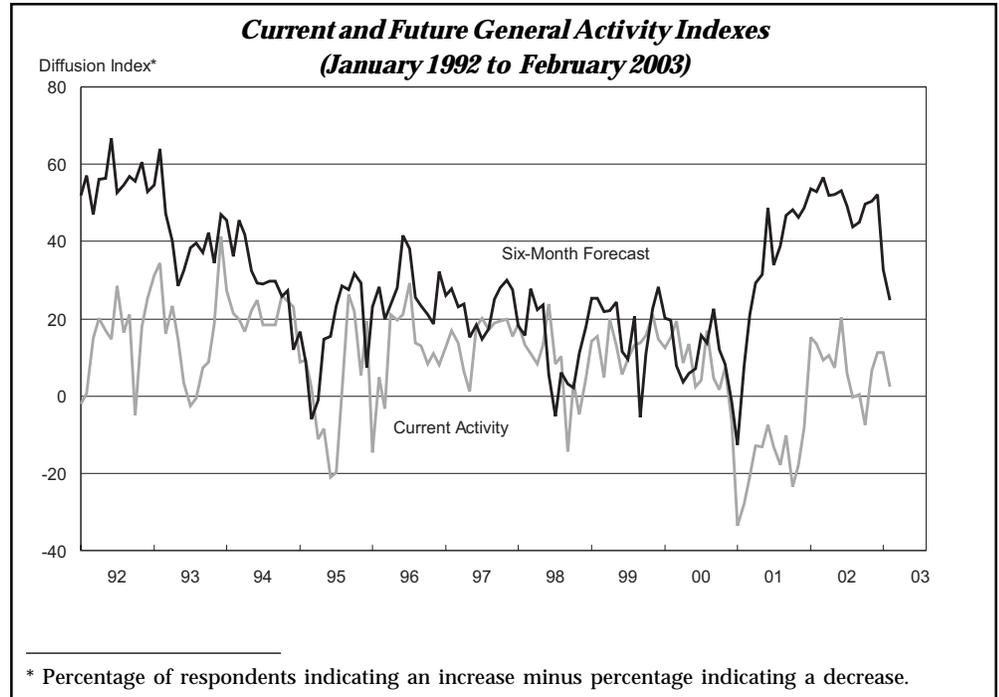
## Current Indicators Fall

The diffusion index of current activity declined from 11.2 in January to 2.3 this month (see Chart). Only slightly more firms reported increases in activity this month (22 percent) than reported decreases (20 percent). The shipments index fell significantly this month: from 21.3 in January to zero. New orders, which have shown improvement over the past three months, continued to grow in February. The current new orders index decreased only slightly from 17.3 to 14.1. Nearly 34 percent of the firms reported increases in new orders this month, but 19 percent reported declines. Firms report lower inventories again this month: the inventory index remained negative but improved slightly from -17.3 to -15.7. The unfilled orders index remained negative at -9.1, slightly down from its reading of -1.5 in the previous month. The index for delivery times also fell, from -7.3 to -15.5.

Overall employment in the manufacturing sector was steady this month. Seventy percent of firms reported steady employment levels in February, and the percentage of firms reporting declines in employment (15 percent) only slightly exceeded the percentage reporting increases (14 percent). The current employment index remained negative but improved from -6.1 in January to -0.9. However, the index of average hours worked declined this month, from 3.8 in January to -5.1.

## Prices of Manufactured Goods Remain Steady

Firms participating in the survey held prices of their goods mostly steady this month, despite



higher costs noted by some firms. Three-fourths of firms reported no change in prices of their own manufactured goods, and the percentage reporting higher prices (12 percent) is nearly offset by the percentage reporting lower prices (10 percent). The prices received index declined from 6.3 in January to 2.2 this month.

Despite relatively steady prices received for their own products, many firms continued to report higher costs. The percentage of firms that reported paying higher input prices (21 percent) outpaced the percentage that reported paying lower prices (4 percent). The prices paid index remained positive for the 12th consecutive month, increasing from 11.6 in January to 16.2 this month. Still, the largest percentage of firms (75 percent) reported steady input prices this month. However, there was a notable rise in firms' expectations about price increases over the next six months. The future

prices paid index jumped from 11.9 in January to 35.5 this month, although the future prices received index increased modestly from 3.4 in January to 4.9.

## Manufacturing Outlook Moderates Again This Month

Although manufacturers still expect economic conditions to improve over the next six months, they have generally grown much less optimistic. The percentage of firms expecting growth over the next six months (45 percent) tops the percentage of firms expecting declines (20 percent). Nevertheless, the future activity index, which was 52.2 in December, declined again, from 32.6 in January to 24.7 (see Chart). Indicators of expected new orders and shipments also declined this month: the future new orders index fell from 35.7 to 29.2, and the future shipments index fell slightly from 32.6 to 28.5. On balance, firms expect unfilled orders

and delivery times to remain near their current levels. Over the next six months, 25 percent of firms anticipate lower levels of inventories and 21 percent expect higher.

Two areas in which firms' expectations improved this month were employment and capital spending. The future employment index increased from 5.4 in January to 16.0, with only 28 percent expecting to increase their payrolls and 12 percent expecting to decrease them over the next six months. Nearly 24 percent of the manufacturers report that they will increase capital spending over the next six months, but 11 percent expect spending to decline. The index for future capital spending improved marginally from 9.5 in January to 12.9 this month.

Special questions this month asked firms about the impact of geopolitical uncertainties on their hiring and capital spending plans for 2003 (see *Special Questions*). The firms' responses suggest that both hiring and capital spending are being adversely affected by these uncertainties but lack of demand is also an important factor. The largest percentage of firms (58 percent) indicated that a lack of demand was holding back hiring and spending plans this year, while 40 percent cited geopolitical uncertainties. Of those that cited geopolitical uncertainties as an influence, 12 percent indicated such uncertainties are having significantly negative effects on their hiring plans, and 36 percent indicated significantly negative effects on capital spending plans. Moreover, 40 percent or more of firms report

### Special Questions (February 2003)

#### Are your hiring and spending plans in 2003 being adversely affected by:

Lack of demand	58%
Geopolitical uncertainties	40%
Other	9%
Not Affected	26%

(Numbers do not add to 100 because firms could indicate more than one factor.)

#### If geopolitical uncertainties are having an impact on your hiring and capital spending for 2003, are the impacts:

	Hiring	Capital Spending
Significantly negative	12%	36%
Slightly negative	79%	58%
Slightly positive	6%	3%
Significantly positive	3%	3%

#### Once geopolitical uncertainties are resolved, how soon will your hiring and spending increase?

	Hiring	Capital Spending
Immediately	10%	8%
Within 3 months	28%	24%
Within 6 months	21%	21%
After 6 months	13%	21%
No changes planned	28%	26%

they do not plan to increase hiring and capital spending within the first six months, if at all, after the resolution of geopolitical uncertainties.

#### Summary

Overall manufacturing conditions in the region are mostly steady this month, and indicators for general activity, shipments, and

employment suggest no growth. Manufacturers' own prices remain steady despite about one-fifth of the firms reporting increases in input prices. Firms' expectations for the next six months deteriorated again this month, although firms expecting improvement outnumbered those expecting declines by slightly more than 2 to 1.

### BUSINESS OUTLOOK SURVEY

#### Summary of Returns February 2003

	February vs. January				Six Months from Now vs. February			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	20.0	57.7	22.3	2.3	20.1	25.2	44.9	24.7
Company Business Indicators								
New Orders	19.4	47.0	33.6	14.1	20.4	26.1	49.6	29.2
Shipments	26.3	45.9	26.3	0.0	20.0	22.0	48.5	28.5
Unfilled Orders	20.3	64.8	11.2	-9.1	14.8	59.4	14.9	0.1
Delivery Times	21.1	72.5	5.6	-15.5	14.4	65.0	10.9	-3.5
Inventories	32.3	50.8	16.6	-15.7	24.8	44.8	21.0	-3.8
Prices Paid	4.3	75.2	20.5	16.2	5.3	47.5	40.8	35.5
Prices Received	9.6	75.1	11.8	2.2	9.7	67.3	14.6	4.9
Number of Employees	15.3	70.2	14.4	-0.9	12.1	54.6	28.1	16.0
Average Employee Workweek	19.7	63.4	14.6	-5.1	14.7	57.5	21.5	6.8
Capital Expenditures	—	—	—	—	10.6	44.9	23.6	12.9

#### 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 February 14, 2003.