



# BUSINESS OUTLOOK

## SURVEY

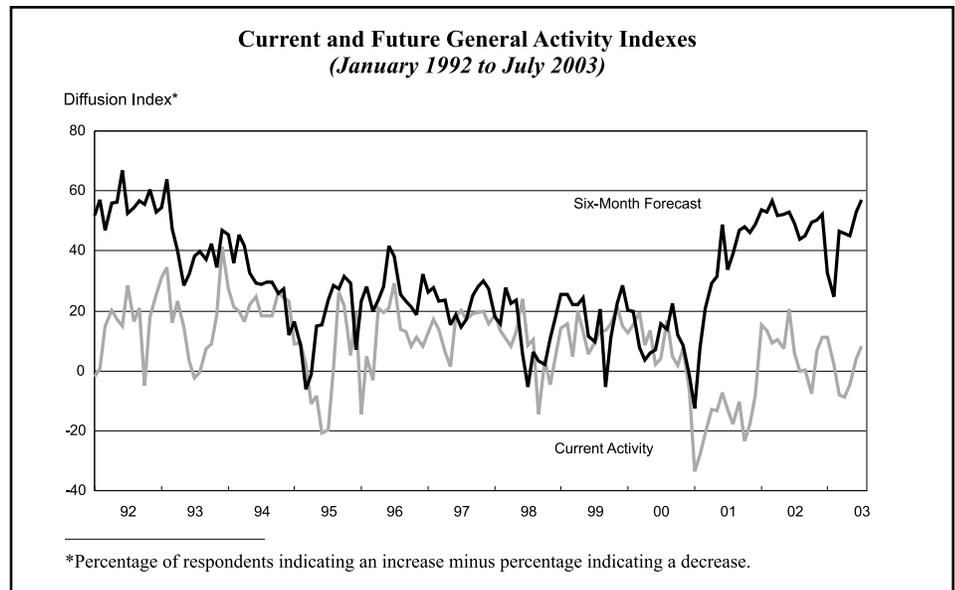
July 2003

Activity in the region's manufacturing sector improved modestly this month, according to firms surveyed for this month's *Business Outlook Survey*. Most indicators pointed to some improvement, with noteworthy increases recorded in indexes for new orders and shipments. The region's manufacturing executives remain generally optimistic that business conditions will improve over the next six months.

### Most Current Indicators Improve

The survey's broadest measure of manufacturing conditions, the current activity diffusion index, increased from 4.0 in June to 8.3 this month. The index turned positive in June, following three months in negative territory (see Chart). Indexes for both shipments and new orders showed similar renewal this month. The current new orders index increased from -0.5 in June to 10.4, its first positive reading in five months. The current shipments index recorded its first positive reading in four months, increasing from -1.2 in June to 9.1 this month. More firms reported increases in unfilled orders than declines for the second consecutive month—another sign of improved activity. The index for delivery times improved moderately but remained negative. The current inventory index remained positive for the second consecutive month.

The overall improvement in manufacturing is also evident in firms' responses regarding employment. Although manufacturing employment was virtually steady this month, as evidenced by the current employment index, the index increased 14 points and recorded its first positive reading in eight months. Similarly, the index for the average workweek increased 15 points in July and moved into positive territory for the first time in six months.



### Lower Prices Reported This Month

Eleven percent of the manufacturing firms polled reported declines in prices of their own manufactured goods this month, exceeding the 4 percent that reported higher prices. Although the largest percentage of firms reported steady prices this month (84 percent), the prices received index remained negative for the second consecutive month. Input price pressures were not evident this month. The current prices paid index fell another 12 points to -6.5. The prices paid index has dropped 29 points in three months and is now at its lowest reading in 19 months.

### Signs of Improving Optimism

Along with improved readings for current activity, firms' expectations for future growth showed improvement this month. The future general activity index edged higher, from 52.8 in June to 56.9 this month (see Chart). The percentage of firms expecting increases in activity over the next six months (61 percent) is significantly greater than the percentage

expecting declines (only 4 percent). Firms' expectations for new orders and shipments show similar optimism.

The outlook for employment and capital spending improved again this month. The future employment index increased for the second consecutive month and is now at its highest reading in 15 months. Twenty-eight percent of the firms indicated that employment would rise in the next six months; only 7 percent indicated that it would fall. The future capital spending index increased 7 points over the past two months, but its current reading is now only slightly above its average reading last year.

Responses to special questions this month suggest that increases in employment will occur over the remainder of this year and continue into next year (see Special Questions). Of the firms projecting future growth in sales, 25 percent plan to add workers in the third quarter. An additional 17 percent of those firms will add workers in both the fourth quarter of 2003 and first quarter of 2004; 12 percent would add workers in the second quarter and 29 percent

sometime after the second quarter of 2004. Firms' responses also reflected the current low rates of capacity utilization. Among firms that are projecting sales growth and the need to eventually increase capacity, half indicated that increased capacity would not be necessary until after the second quarter of 2004, assuming current sales forecasts are achieved. Nevertheless, some of the firms

surveyed will need to increase capacity in each of the next several quarters if forecasts for growth are met.

#### Summary

Regional manufacturing showed signs of improvement again this month. Most of the survey's indexes of current performance improved this month and

suggest a slight expansion of business. Manufacturing employment was reported steady this month, and on balance, more firms reported declines in prices for inputs and manufactured products. In general, manufacturers continued to be optimistic, and firms also provided a more optimistic outlook for employment growth this month.

### SPECIAL QUESTIONS (July 2003)

#### What change in sales do you expect for the following quarters?

	Decrease	No Change	Increase 1 - 2%	Increase 2 - 4%	Increase 4 - 6%	Increase >6%	Total
Q3:2003	15%	31%	13%	19%	9%	13%	100%
Q4:2003	13%	22%	20%	20%	16%	9%	100%
Q1:2004	8%	18%	23%	30%	14%	7%	100%
Q2:2004	1%	13%	27%	35%	13%	11%	100%

#### If these increases occur, when will you need to increase capacity or hire additional workers?

	Q3:2003	Q4:2003	Q1:2004	Q2:2004	Sometime After Q2:2004	Total
Hire Additional Workers	25%	17%	17%	12%	29%	100%
Increase Capacity	8%	16%	20%	6%	50%	100%

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#### Summary of Returns July 2003

	Previous Diffusion Index	July vs. June				Six Months from Now vs. July				
		Increase	No Change	Decrease	Diffusion Index	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	4.0	26.8	54.7	18.5	8.3	52.8	60.7	27.8	3.8	56.9
Company Business Indicators										
New Orders	-0.5	31.2	48.0	20.8	10.4	58.5	62.0	24.1	3.3	58.7
Shipments	-1.2	26.6	56.0	17.5	9.1	50.8	54.9	30.4	5.5	49.4
Unfilled Orders	7.9	19.7	62.5	16.3	3.5	22.8	29.1	62.2	1.9	27.3
Delivery Times	-8.0	6.5	81.1	11.5	-5.0	0.6	11.1	73.7	11.5	-0.4
Inventories	7.2	21.6	61.1	16.2	5.4	-7.7	15.3	55.9	19.5	-4.3
Prices Paid	5.8	11.2	71.0	17.7	-6.5	17.1	28.5	58.6	5.8	22.7
Prices Received	-9.5	3.5	84.3	11.2	-7.7	7.6	14.8	68.7	5.9	8.8
Number of Employees	-12.9	16.4	66.8	15.6	0.8	14.8	28.4	59.5	6.5	21.9
Average Employee Workweek	-10.1	19.6	64.2	14.5	5.1	15.3	28.8	64.3	5.6	23.2
Capital Expenditures	—	—	—	—	—	12.3	25.4	35.8	9.8	15.6

#### 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 July 10, 2003.