



BUSINESS OUTLOOK

SURVEY

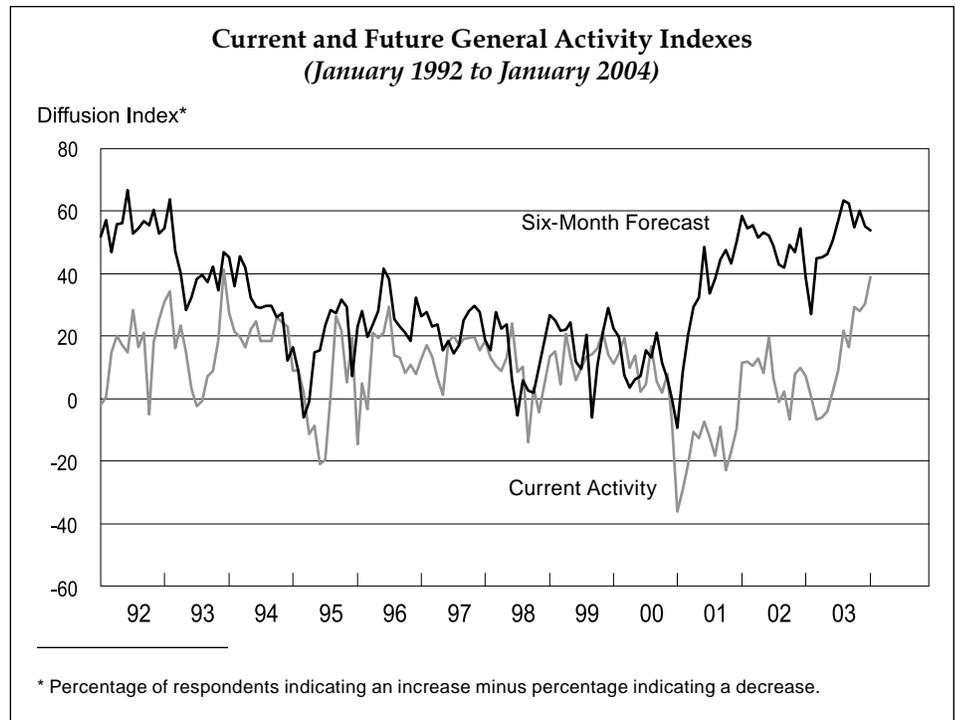
January 2004

The recent improvement in the region's manufacturing sector continued into the new year. Nearly half of the firms reported increases in activity and new orders in January. Employment indexes were positive again this month. Firms reported an increase in input prices this month, and there are recent signs of pressure on prices for their own manufactured goods. Expectations for growth over the next six months remain optimistic, although some indicators of future activity fell from their recent high readings. Capital spending plans, however, showed continued improvement this month.

Manufacturing Continues to Improve

The diffusion index of current general activity, the survey's broadest measure of manufacturing conditions, increased from a revised reading of 30.3 in December to 38.8 for the first month of 2004.* The index has remained positive for eight consecutive months (see Chart). The index for new orders fell slightly from its revised reading of 37.9 in December to 36.5 in January. Still, 49 percent of the firms reported an increase in new orders this month. The diffusion index for current shipments also remained at a high level, although

*The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on January 8, 2004. The information is available at: <http://www.phil.frb.org/econ/bos/boshistory.html>. Revisions for selected series from 1996 to 2003 are listed on pages 3-4 of this release.



it fell more than 6 points. For the eighth consecutive month, more firms reported an increase in unfilled orders (24 percent) than reported a decrease (14 percent). Delivery times and inventories are nearly steady this month.

There has been a notable improvement in manufacturing employment at the firms in our survey over the past two months. Although the current employment index fell from 19.4 in December to 17.5 this month, these are the highest readings since October 1988. Firms reported that the average workweek expanded again this month, although the current workweek index declined 3 points from a relatively high reading in December.

Cost Pressures Still in Evidence

Firms reported higher costs again this month. Nearly 40 percent of the firms reported higher input prices this month, and only 4 percent reported lower prices. The prices paid diffusion index increased for the sixth consecutive month. Twenty-four percent of firms reported that prices for their own manufactured goods were higher, although 15 percent reported lower prices. The current prices received index increased again this month and is now at its highest reading since April 2000.

Firms' expectations regarding future price increases continue to move up. The future prices paid index has

increased 13 points over the past three months, and the future prices received index has increased 18 points over the same period.

Six-Month Forecasts Still Optimistic

Manufacturers begin 2004 with continued optimism about growth over the next six months, although many future indicators were slightly lower than last month. The future general activity index decreased slightly from 55.2 in December to 53.9 this month, but it remains at a relatively high level (see Chart). The future new orders index fell nearly 5 points and the future shipments index fell 4 points. Firms expect unfilled orders to increase over the next six months, and delivery times will be longer. More firms (27 percent) expect inventories to increase over the next six months than to decrease (18 percent).

Firms' expectations regarding future employment have shown some

moderation in the last three months. The percentage of firms expecting to increase employment over the next six months (28 percent) still exceeds the percentage expecting employment to decrease (13 percent). The future employment index, however, fell again this month and has declined 17 points over the last three months.

Firms' expectations for capital spending showed improvement for the fourth consecutive month (the diffusion index for future capital spending has increased 14 points over the past three months). In special questions this month, firms were asked about their six- to 12-month plans for spending on new plant and equipment (see Special Questions). Fifty-eight percent of the firms expect to increase such spending over the next six to 12 months; 13 percent expect to decrease it. Among those firms that have not yet placed the orders to carry out those plans, 50 percent expect to do so in the first quarter and 39 percent expect

to do so in the second quarter. The most frequently cited factors for increased spending in 2004 were expected high sales growth, the need to replace capital goods, and a high rate of current capacity utilization. The most frequently cited factors for not increasing spending were low capacity utilization and expected low sales growth.

Summary

The *Business Outlook Survey's* current economic indicators suggest that the expansion of the region's manufacturing sector is continuing. Indicators for general activity, new orders, and shipments remain at relatively high levels. Respondents also reported that employment increased again this month. In general, manufacturing executives' outlook for future growth continued to be optimistic. Moreover, their outlook for capital spending over the next six months is showing signs of improvement.

BUSINESS OUTLOOK SURVEY

Summary of Returns

January 2004

	Previous Diffusion Index*	January vs. December				Diffusion Index	Previous Diffusion Index*	Six Months from Now vs. January			
		Increase	No Change	Decrease	Diffusion Index			Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	30.3	49.2	34.7	10.3	38.8	55.2	64.4	17.5	10.4	53.9	
Company Business Indicators											
New Orders	37.9	49.2	38.1	12.7	36.5	54.6	61.3	23.8	11.5	49.8	
Shipments	39.6	44.8	40.3	11.7	33.1	54.0	60.8	25.7	11.1	49.7	
Unfilled Orders	15.5	24.3	62.1	13.6	10.7	22.6	29.5	54.5	12.3	17.2	
Delivery Times	0.5	7.5	80.7	9.5	-2.0	2.6	21.4	63.1	9.9	11.5	
Inventories	-6.7	19.2	56.0	23.1	-3.9	8.4	26.9	48.7	18.2	8.7	
Prices Paid	30.9	39.5	54.1	4.2	35.3	41.0	48.7	36.7	4.5	44.3	
Prices Received	6.4	24.0	59.6	14.6	9.4	23.1	38.7	45.7	8.9	29.8	
Number of Employees	19.4	19.4	74.2	1.9	17.5	17.5	28.0	55.9	12.9	15.1	
Average Employee Workweek	16.1	19.2	74.5	6.3	12.9	24.6	24.3	61.6	7.6	16.7	
Capital Expenditures	—	—	—	—	—	21.5	30.7	49.6	4.8	26.0	

*December data were revised, along with historical data, to incorporate new seasonal adjustment factors (see note on first page).

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 January 12, 2004.

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current General Activity												
1996	-14.7	4.9	-3.3	21.2	19.5	21.0	29.3	13.7	13.0	8.3	10.9	8.0
1997	12.8	17.0	13.5	6.5	1.1	18.0	20.2	17.1	19.1	19.4	19.8	15.5
1998	18.5	13.1	10.6	8.8	13.2	24.0	8.4	10.2	-14.1	3.6	-4.5	4.6
1999	13.6	15.0	4.4	20.7	13.0	5.7	9.8	13.5	14.0	16.1	21.4	14.3
2000	11.1	14.4	19.4	10.0	13.7	2.3	4.6	16.8	5.6	2.0	7.8	-7.4
2001	-36.2	-29.3	-20.9	-10.7	-12.7	-7.5	-12.4	-18.4	-8.9	-23.0	-16.9	-9.6
2002	11.5	11.8	10.4	12.7	8.1	19.6	6.6	-1.2	2.3	-6.7	7.9	9.7
2003	7.2	0.7	-6.8	-6.2	-4.2	2.2	8.7	21.9	16.5	29.2	27.9	30.3
Current New Orders												
1996	-16.1	1.3	-1.3	16.7	24.1	23.2	26.1	16.1	17.9	10.4	11.5	11.4
1997	19.4	18.1	16.1	9.9	5.4	16.7	24.4	17.0	20.9	17.2	17.5	16.1
1998	15.5	21.8	14.8	11.2	16.0	17.5	8.6	10.3	-1.5	7.7	-7.0	7.1
1999	19.2	17.2	19.5	18.2	18.8	14.3	10.6	17.1	10.1	29.0	20.2	16.7
2000	5.3	10.0	16.8	15.9	13.8	6.8	7.3	13.8	13.7	4.2	3.1	4.3
2001	-27.7	-19.4	-6.4	-7.5	-7.4	-9.0	-5.8	-18.2	-0.2	-10.1	-17.4	-4.5
2002	10.1	8.0	7.2	12.8	9.8	19.3	6.5	1.7	5.2	3.7	11.7	9.8
2003	13.1	9.5	-3.1	-8.3	-2.1	0.7	10.7	16.2	20.0	29.4	24.0	37.9
Current Shipments												
1996	10.9	13.3	-2.9	25.2	27.3	26.6	33.0	17.0	25.1	12.3	17.6	12.6
1997	14.6	12.0	19.3	15.8	9.9	8.5	24.8	16.9	15.8	14.4	15.6	12.2
1998	16.5	16.7	12.4	13.9	11.5	21.0	6.5	18.0	8.1	15.2	0.0	14.6
1999	17.2	14.1	12.7	11.9	16.2	10.1	15.4	15.9	8.5	25.1	32.5	16.1
2000	16.3	20.7	21.4	14.9	12.0	4.1	14.4	14.2	13.8	-8.1	20.3	5.5
2001	-30.0	-32.4	-5.6	-3.1	-3.5	-7.2	-15.9	-13.1	-8.6	-10.0	-13.1	-5.4
2002	11.0	9.9	4.7	12.7	12.9	13.2	7.5	0.7	7.9	2.0	8.7	3.5
2003	18.0	-0.9	-0.4	-6.1	-3.0	-0.8	10.4	17.6	13.4	29.1	31.7	39.6
Current Unfilled Orders												
1996	-31.8	-17.3	-12.3	-13.3	-5.6	5.9	-1.9	-1.5	3.8	-10.1	-5.7	-6.5
1997	-10.6	-5.2	-10.0	-6.1	-6.5	-2.3	-0.4	-4.6	-1.6	-7.1	-5.9	-7.7
1998	8.4	-0.4	-2.9	-4.8	-0.2	2.3	5.9	-6.2	-9.2	-10.3	-11.0	-4.5
1999	-4.6	-5.8	-3.1	-1.1	-5.6	-7.8	-5.0	3.9	-2.0	0.1	0.2	-1.0
2000	-1.5	4.3	2.3	-0.4	-4.4	-11.7	-10.8	3.3	-16.3	-2.5	0.5	-14.6
2001	-23.6	-15.5	-20.1	-20.3	-16.5	-11.6	-16.1	-20.5	-11.9	-13.7	-12.7	-14.4
2002	-8.0	-8.4	-2.7	-0.8	-10.1	9.5	-5.3	-10.2	-6.9	-18.5	-4.2	-2.2
2003	-4.2	-8.3	-8.5	-18.1	-7.2	3.6	3.4	5.5	6.8	9.1	9.3	15.5
Current Delivery Times												
1996	-9.3	-12.5	-3.5	-14.1	-7.8	0.6	1.5	-5.9	-3.7	-13.0	-8.4	-7.1
1997	-10.4	-5.3	-3.4	-7.9	-12.6	-4.2	-4.9	-2.3	0.2	-8.7	-6.1	-8.2
1998	7.1	-5.7	-4.3	-4.6	1.4	-5.9	5.7	0.1	-5.7	-1.3	-8.2	-7.0
1999	8.3	-3.1	-6.3	-0.2	-5.5	-1.2	-4.0	-2.1	-5.1	-6.3	-0.7	-8.1
2000	-3.7	-0.3	-0.9	0.2	7.0	-11.2	-6.0	-10.9	-15.0	-6.0	-10.0	-12.3
2001	-18.8	-9.5	-23.9	-17.6	-12.6	-13.5	-13.4	-27.7	-13.0	-15.2	-10.1	-11.7
2002	-12.7	4.0	-3.5	-6.3	-8.9	-1.3	-10.2	-5.7	-1.7	-10.7	-8.8	-3.9
2003	-7.4	-13.4	-8.3	-6.2	-10.1	-7.6	-4.1	-1.0	-2.6	3.0	-0.5	0.5
Current Inventories												
1996	-7.3	-13.4	-12.7	-17.0	-10.4	-12.9	-6.7	-15.9	-12.2	-4.6	-12.1	-2.9
1997	-4.6	-8.1	-13.3	-7.7	-13.3	-5.2	-6.2	-5.2	-4.4	-12.3	-6.9	-8.5
1998	-4.7	-7.1	-3.0	-16.2	-1.3	-6.7	-10.0	-14.1	-14.7	-15.0	-14.1	-15.9
1999	-17.5	-9.9	-10.6	-1.0	-15.8	-11.8	-9.7	-6.8	-1.9	-9.8	7.9	2.6
2000	4.7	-6.5	2.1	5.9	6.0	-1.3	-1.3	-12.3	-0.7	6.2	-4.8	-10.9
2001	-9.9	-3.8	-25.7	-18.2	-10.2	-17.7	-17.6	-23.1	-25.1	-18.8	-14.6	-14.7
2002	-15.1	-11.3	-10.5	-11.9	-15.4	-7.4	-13.8	3.8	-8.2	-3.9	-5.6	12.5
2003	-14.7	-12.3	-11.8	-2.6	-5.8	7.8	3.9	2.3	2.6	-4.3	-12.7	-6.7
Current Prices Paid												
1996	12.9	-1.2	-0.1	11.0	11.3	15.2	11.8	6.6	15.5	19.4	13.6	11.6
1997	8.4	12.2	11.8	16.8	15.2	13.5	17.4	16.7	12.5	17.3	17.9	20.4
1998	16.8	11.4	10.0	3.0	2.7	2.9	-4.7	-8.0	-5.3	-9.7	-9.0	-8.1
1999	-7.0	-6.5	0.8	2.3	2.7	8.9	14.6	12.0	11.2	27.2	26.9	26.0
2000	25.7	39.2	30.1	31.0	29.4	26.9	26.5	27.2	24.0	26.0	22.9	17.5
2001	16.1	12.8	11.7	5.1	0.1	13.5	-4.4	-11.4	-13.9	-16.7	-14.3	-9.8
2002	-2.8	-5.1	-0.3	5.3	17.3	19.3	18.9	20.8	19.1	19.5	17.4	17.3
2003	14.5	16.8	21.2	22.0	9.6	5.4	-5.1	14.4	21.0	23.5	26.2	30.9

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current Prices Received												
1996	-7.4	-16.2	-9.3	-5.0	-3.1	-2.6	-1.6	-3.1	4.0	3.3	-1.7	2.0
1997	2.2	3.7	-3.3	-1.9	-1.6	0.7	3.5	0.6	-1.3	1.1	5.2	1.8
1998	3.2	0.4	-1.9	1.1	-1.3	-2.5	-6.7	-8.4	-10.9	-11.8	-14.3	-12.0
1999	-14.5	-6.1	-8.6	-7.6	-7.4	-10.7	-4.0	2.5	2.4	5.2	10.5	3.4
2000	8.4	9.2	8.4	16.5	5.9	5.0	6.6	1.6	-0.4	3.4	0.8	-1.4
2001	-4.4	-2.4	-3.8	-9.3	-4.9	-9.1	-11.3	-11.5	-12.6	-12.2	-12.2	-12.9
2002	-7.7	-4.3	1.4	0.0	4.1	6.0	1.2	2.4	4.3	-4.6	-5.0	3.5
2003	5.0	1.9	-3.8	7.0	-0.7	-9.5	-7.4	1.4	4.3	5.9	4.9	6.4
Current Number of Employees												
1996	-9.0	-7.9	-4.1	0.1	3.9	3.1	7.6	3.0	7.5	-0.4	2.2	-0.9
1997	5.0	2.6	4.6	4.4	6.3	8.6	5.3	10.0	-3.0	2.5	3.7	9.5
1998	1.0	15.1	9.0	-5.0	4.6	5.7	4.5	6.0	0.3	8.2	3.2	3.2
1999	2.6	-0.7	-1.2	2.4	3.8	1.7	1.2	3.5	8.3	9.1	17.1	15.7
2000	13.1	14.5	13.4	12.7	7.9	3.0	7.2	13.7	6.4	1.6	-3.6	-9.7
2001	-19.9	-8.9	-9.5	-13.8	-13.2	-14.5	-9.4	-12.2	-18.0	-25.7	-20.4	-19.7
2002	-7.7	-15.8	-7.0	-4.6	2.9	-2.8	-8.5	-10.9	-4.2	-4.3	1.4	-3.4
2003	-4.4	-3.1	-9.6	-11.7	-11.3	-11.8	-0.9	-6.4	-3.5	4.8	4.2	19.4
Current Average Employee Workweek												
1996	-9.3	-10.8	-13.7	2.5	4.7	1.6	5.5	-0.7	-0.2	-5.9	-4.5	2.0
1997	6.1	-0.1	-0.3	-0.6	-2.8	-2.9	-1.3	0.0	-3.2	-0.5	-1.7	1.8
1998	6.1	9.0	-0.4	-9.1	-1.1	4.8	-3.7	-2.3	-3.9	-0.6	-18.0	6.9
1999	-6.9	-6.6	7.1	8.1	1.2	6.4	-1.4	4.9	-3.6	6.2	5.8	1.1
2000	0.5	7.1	14.8	5.4	4.3	-3.9	4.0	1.3	-0.9	-9.3	-1.1	-13.7
2001	-26.2	-23.8	-13.4	-25.9	-18.8	-16.3	-19.4	-21.9	-18.9	-20.6	-11.9	-15.2
2002	-8.3	-4.0	-8.1	-3.1	0.1	0.7	-9.0	-5.2	-1.8	-4.1	-5.9	-3.0
2003	-0.1	-5.9	-9.8	-5.6	-9.1	-7.1	2.6	6.8	3.3	13.0	0.6	16.1
Future General Activity												
1996	23.2	28.2	19.9	23.7	28.0	41.6	38.2	25.4	23.2	21.1	18.5	32.4
1997	26.4	27.8	23.2	23.7	15.4	18.6	14.5	17.1	24.9	27.9	29.7	27.7
1998	18.9	15.6	27.7	22.3	23.8	5.7	-5.4	5.9	2.6	1.9	10.1	18.6
1999	26.6	25.2	21.9	22.0	24.4	11.8	9.5	20.3	-6.1	10.5	21.0	28.9
2000	22.4	19.9	7.5	3.4	6.1	7.3	15.6	13.2	21.1	11.4	6.1	-0.2
2001	-9.4	8.5	20.4	29.2	32.2	48.7	33.6	38.3	44.5	47.5	43.2	50.1
2002	58.4	54.5	55.5	51.6	53.1	52.1	48.9	43.0	42.0	49.1	46.9	54.6
2003	38.6	27.2	44.9	45.4	46.2	50.5	56.8	63.3	62.6	54.8	60.1	55.2

Special Questions (January 2004)

1. How do you expect your firm's spending on new plant and equipment to change over the next six to 12 months relative to your actual spending over the past six to 12 months?

Increase 58.2%
 Decrease 12.7%
 No change 29.1%

2. If you plan to increase capital spending and have not already started to place the necessary orders, when do you expect to start placing these orders?

2004:Q1 50.0%
 2004:Q2 38.5%
 2004:Q3 11.5%
 2004:Q4 0%