

BUSINESS

Federal Reserve Bank
of Philadelphia

O U T L O O K Survey

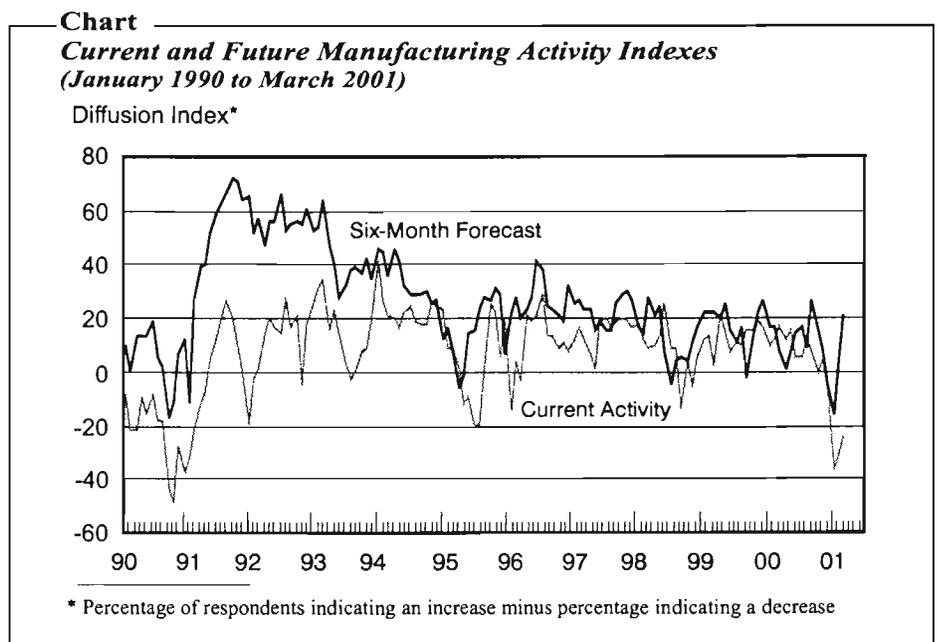
March 2001

Although survey indexes improved somewhat this month, they still suggest continuing decline in regional manufacturing activity. The firms participating in the survey report continued declines in employment and average work hours this month. Indexes indicate smaller declines in firms' current orders and shipments. Measures of change in prices for inputs and final products are close to the levels in the previous survey. This month, firms were more optimistic about conditions six months into the future.

Current Indicators Remain Negative

The diffusion index of current activity remained negative this month and has been negative for four consecutive months (see Chart). The index increased from -30.5 in February to -23.5. The percentage of firms reporting decreases in business activity (34 percent) continues to be greater than the percentage reporting increases (11 percent).

Some leveling off of recent declines in new orders and shipments was evident in this month's responses: both the current new orders and shipments indexes also remained negative but increased notably. The current new orders index increased from -19.6 in February to -3.1 in March. Likewise, the current shipments index increased from -29.0 to -3.6. Some of the improvement in shipments may be a result of improved



delivery times and reductions in order backlogs. Indexes for unfilled orders and delivery times remained significantly negative; the unfilled orders index decreased from -14.9 in February to -19.2, and the delivery times index declined from -10.3 to -22.0. Further downward adjustment in inventories is also reported this month: the current inventory index declined from -6.3 to -22.0.

Demand for labor continues to be weak. For the fifth consecutive month the percentage of firms reporting declines in employment (24 percent) is greater than the percentage reporting increases

(17 percent). The current employment index increased only slightly, from -7.9 to -6.3. The current average workweek continues to decline, although the current workweek index improved somewhat, increasing from -25.7 to -13.2.

Price Pressures Are Latent

Survey participants reported little change in price pressures this month, although price increases for inputs remain evident. The current prices paid index increased slightly, from 13.1 to 15.2. More than 68 percent of firms report

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no change in input prices this month, although 23 percent report increases, and 8 percent report decreases. Prices of final manufactured goods remain in check, with the percentage of firms reporting price decreases (17 percent) slightly higher than the percentage reporting price increases (13 percent). The current prices received index decreased slightly from -2.9 to -3.6 and has remained negative in six of the past seven months.

Outlook Improves Further

Although most current economic indicators suggest weakness in the manufacturing sector, this month's survey shows improvement in expectations for the future. The index of future general activity increased from 4.8 in February to 20.9 this month, its

second consecutive month of increase (see Chart). The percentage of firms expecting an improvement in business conditions over the next six months (47 percent) exceeds the percentage expecting deterioration (26 percent). A similar improvement in outlook is evident in forecasts for new orders and shipments. The future new orders index increased from 9.4 to 25.8, and the future shipments index increased from 6.1 to 24.0.

Firms are relatively less optimistic in their plans regarding employment increases. Although nearly 26 percent of the manufacturers expect higher employment six months from now, 25 percent expect lower employment. The future employment index increased from -6.3 in February to 0.9 in March. Like employment, average work hours are

not expected to change from current levels. Capital expenditures are also not expected to increase over the next six months inasmuch as the percentage of firms expecting increases (23 percent) is nearly matched by the percentage expecting decreases (20 percent).

Summary

Manufacturing has been in decline since the end of last year, and this month's *Business Outlook Survey* suggests overall conditions in the manufacturing sector have continued to deteriorate, although at a slower rate than last month. In particular, indexes for new orders and shipments show smaller declines this month. Firms' forecasts of future general activity improved this month.

BUSINESS OUTLOOK SURVEY

Summary of Returns March 2001

	March vs. February				Six Months from Now vs. March			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	34.0	55.4	10.5	-23.5	25.9	22.8	46.8	20.9
Company Business Indicators								
New Orders	32.3	38.0	29.2	-3.1	24.0	24.9	49.8	25.8
Shipments	31.9	39.8	28.3	-3.6	24.4	23.8	48.4	24.0
Unfilled Orders	30.0	56.6	10.8	-19.2	17.5	58.3	17.4	-0.1
Delivery Times	29.1	63.9	7.0	-22.0	23.0	59.9	10.8	-12.3
Inventories	43.4	34.2	21.4	-22.0	38.9	41.4	16.6	-22.3
Prices Paid	8.1	68.4	23.4	15.2	10.4	44.9	40.1	29.7
Prices Received	16.8	68.4	13.2	-3.6	13.3	58.8	25.2	11.9
Number of Employees	23.5	58.2	17.2	-6.3	24.8	42.4	25.8	0.9
Average Employee Workweek	24.4	64.4	11.2	-13.2	22.6	52.4	20.0	-2.7
Capital Expenditures	—	—	—	—	20.3	44.8	23.4	3.1

Notes: (1) Items may not add up to 100 percent because of omission by respondents.

(2) All data seasonally adjusted.

(3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease.

(4) Survey results reflect data received through March 10, 2001.