



BUSINESS OUTLOOK SURVEY

April 2002

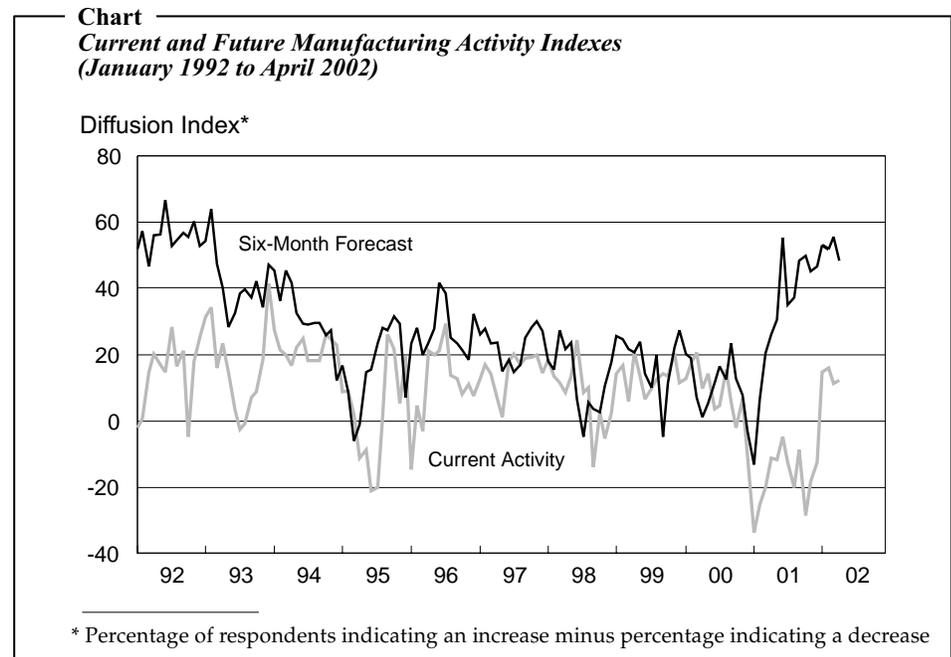
Activity in the region's manufacturing sector improved for the fourth consecutive month, according to firms surveyed for this month's *Business Outlook Survey*. Indicators for general activity, new orders, and shipments improved from their readings in March. Although employment is still in decline, job losses were smaller again this month. Manufacturers are optimistic that business will continue to improve over the next six months.

Current Indicators Edge Higher

Most broad indicators of current economic performance improved from their readings in March. The diffusion index of current activity remained positive for the fourth consecutive month and increased slightly from 11.4 in March to 12.3 this month (see Chart). More firms reported increases in activity (33 percent) than reported decreases (20 percent). Indicators for new orders and shipments also remained positive for the fourth consecutive month. The current new orders index increased from 7.3 in March to 12.8 in April, and the shipments index increased from 7.7 to 16.4.

Unfilled orders held steady in April. The unfilled orders index is positive this month (at 0.2) after remaining negative for 16 consecutive months. The percentage of firms reporting shorter delivery times (20 percent) was slightly larger than the percentage reporting longer delivery times (15 percent), and the delivery times index fell from 0.8 in March to -5.6 this month. The current inventory index also fell, decreasing from -7.1 in March to -10.4.

The demand for labor continues to be weak, but employment losses are smaller than in the recent past. The percentage of firms reporting declines in employment (18 percent) was only slightly greater than the percentage reporting increases (14 percent). Although negative for the 18th consecutive



month, the diffusion index for employment improved slightly from -4.6 to -3.5, its highest reading over the 18-month period.

Price Indexes Show Upward Drift

The percentage of firms reporting a rise in input prices (15 percent) was higher than the percentage reporting a decrease (7 percent). The current diffusion index for current prices paid increased from 3.0 to 7.5, its second consecutive positive reading following eight months of negative readings. Nevertheless, over 77 percent of the firms reported no increase in prices of inputs this month.

Prices of manufactured goods are reported near steady this month. Overall, 87 percent of the firms surveyed indicated no change in the prices of their own manufactured goods. The percentage reporting higher prices (8 percent) was slightly greater than the percentage reporting

lower prices (6 percent) for the second consecutive month. The current prices received index increased from 0.7 to 2.1.

Expectations for future manufacturing prices have drifted higher in recent months. Nearly 43 percent of the manufacturers expect increases in input prices over the next six months, and nearly 34 percent expect a rise in prices of their own manufactured goods. The future prices received index increased from 19.4 in March to 29.4. The future prices paid index remained high although it fell slightly from 38.3 in March to 35.7.

Six-month Expectations Remain Optimistic

Expectations for future manufacturing growth continue to be favorable, although the future general activity index fell from 55.7 to 48.3 this month (see Chart). The percentage of firms expecting growth in general activity over the next six months (59 percent) exceeds the percentage expecting

declines (11 percent). The diffusion indexes for future new orders and shipments remain high, but they declined slightly from their March levels. On balance, firms expect increases in the level of unfilled orders over the next six months, and delivery times are expected to remain near current levels. Firms expect to hold higher inventories over the next six months: the future inventories index rose notably this month from 5.6 in March to 16.7 (its second consecutive positive reading after 17 months of expected decline).

Expectations regarding employment continued to improve this month. The index of future employment increased from 19.9 in March to 23.9 this month, its sixth consecutive increase. Over 38 percent of the firms surveyed anticipate adding workers over the next six months; 14 percent expect to reduce their workforce.

Firms' expectations for capital expenditures over the next six months improved in April: the future capital expenditures index increased from 12.4 to 16.3. In response to special questions this month, 33 percent of the manufacturers polled said that they plan to increase spending on capital from current levels (see *Special Questions*). About 19 percent of those firms expected to increase such expenditures in the first half of this year, but 65 percent

indicated that such increases wouldn't occur until the second half of the year. About 16 percent of firms planning an increase in capital spending indicated that increased spending would be a direct effect of the capital-expensing provisions of the recently enacted economic-stimulus package.

Summary

Manufacturing activity in the region continues to improve, with survey responses indicating growth in general activity, new orders, and shipments. Although more firms reported declines in employment than

increases, the overall declines are not as large as in previous months. While indicators for the prices of inputs and manufactured goods increased this month, the majority of firms continue to report stable prices. Firms continue to be optimistic about growth over the next six months, and their employment forecasts continue to show improvement. Capital expenditure plans improved slightly this month, but many firms indicated that increases would not occur until the second half of the year.

Special Questions (April 2002)

Do you plan to increase spending on capital from current levels?

Yes 33% No 67%

If yes, when:

First half 2002 19.4% 2003 12.9%

Second half 2002 64.5% 2004 3.2%

Total 100.0%

If yes, is the increase in response to the capital-expensing provisions of the recently enacted economic-stimulus package?

Yes 16.1% No 83.9%

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**Summary of Returns
April 2002**

	April vs. March				Six Months from Now vs. April			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	20.2	47.2	32.5	12.3	10.8	24.7	59.2	48.3
Company Business Indicators								
New Orders	24.2	38.3	36.9	12.8	9.5	22.2	62.4	52.9
Shipments	16.5	49.8	32.9	16.4	16.1	18.4	59.8	43.6
Unfilled Orders	17.0	64.1	17.2	0.2	18.1	46.5	29.7	11.7
Delivery Times	20.0	63.6	14.5	-5.6	16.2	65.1	14.5	-1.8
Inventories	29.0	52.2	18.6	-10.4	17.8	42.7	34.5	16.7
Prices Paid	7.2	77.4	14.7	7.5	6.9	46.1	42.6	35.7
Prices Received	5.7	86.5	7.8	2.1	4.2	58.7	33.6	29.4
Number of Employees	17.7	66.5	14.2	-3.5	14.3	46.3	38.2	23.9
Average Employee Workweek	17.8	67.7	14.5	-3.3	9.2	50.8	30.9	21.7
Capital Expenditures	—	—	—	—	9.2	40.0	25.5	16.3

- 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 April 10, 2002.