



BUSINESS OUTLOOK SURVEY

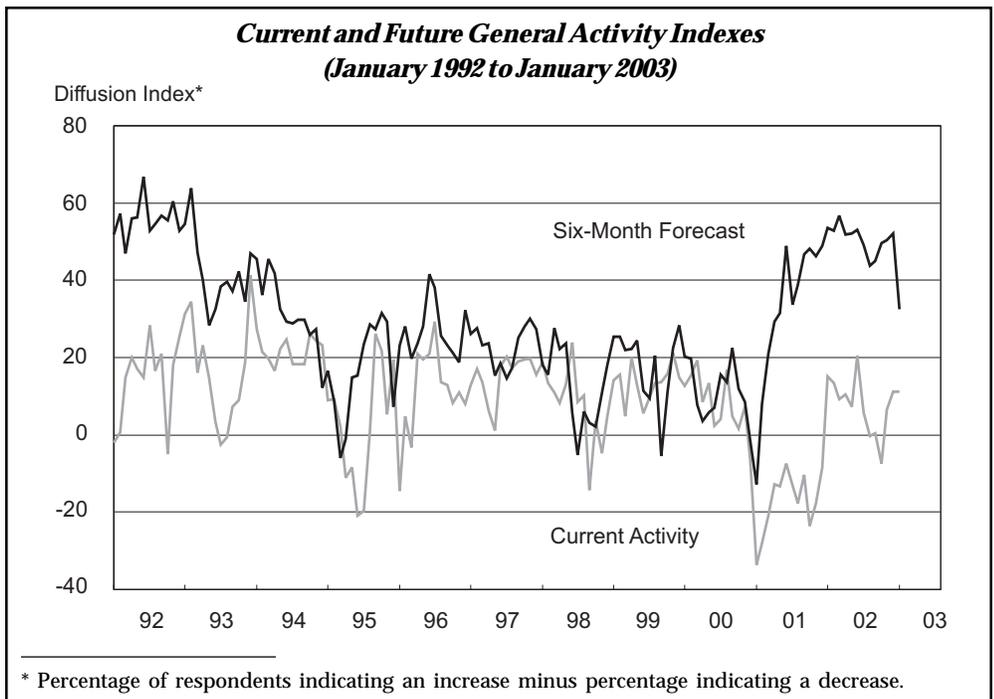
January 2003

Manufacturing activity in the region is showing improvement, according to this month's *Business Outlook Survey*. Over one-third of the firms reported higher new orders and shipments in January, and most indicators have shown some improvement over the last two months. The employment index, however, was negative again this month. Expectations for growth diminished notably in January, although manufacturing executives are still optimistic about conditions for the next six months.

Current Indicators Show Continued Improvement

To start the new year, the index of current general activity held steady at 11.26, virtually unchanged from its upward-revised reading of 11.3 in December.* The index has remained positive for three consecutive months (see Chart). Twenty-six percent of the manufacturers reported increases in activity this month, and 15 percent reported decreases. Indexes for both new orders and shipments increased notably in January. The current new orders index increased from a revised reading of 13.2 in December to 17.3, with nearly 34 percent reporting increases in new orders. The current shipments index also increased significantly, from 4.8 in December to 21.3 this month. Inventories fell this month, and the inventory index declined substantially from 10.5 in December to -17.3. Nearly one-third of the firms reported a decline in inventories this month; only 15 percent reported higher inventories. The unfilled orders index remained negative at -1.5, virtually unchanged from the previous month. The delivery times index fell slightly from -2.9 to -7.3.

* Historical revisions for December and for historical series were released January 13 and are available at: www.phil.frb.org/econ/bos/boshistory.html. Revisions for selected series from 1995 to 2002 are listed on pages 3-4 of this release.



Demand for labor continues to be weak, despite the reported improvement in new orders and shipments this month. The current employment index fell from a revised reading of -0.9 in December, to -6.1. Although nearly 71 percent of the firms reported no change in employment this month, the percentage reporting declines (16 percent) was higher than the percentage reporting increases (10 percent). But the current average workweek index showed slight improvement this month, increasing slightly from a revised -1.0 in December to 3.8.

Price Pressures Are Slight

Cost pressures diminished this month, but the index for prices of manufactured goods drifted slightly higher. With regard to input prices, the percentage of firms reporting higher prices (18 percent) was greater than the per-

centage reporting lower prices (6 percent). Still, the prices paid index moderated from its revised reading of 17.7 in December to 11.6 this month. With regard to output prices, slightly more firms reported higher prices for manufactured goods (13 percent) than reported lower prices (6 percent), and the prices received index rose from 2.9 in December to 6.3 this month. Nearly 80 percent of the manufacturers, however, reported stable prices for their manufactured goods.

New Year Starts with Diminished Expectations

Manufacturers begin 2003 less optimistic about business growth over the next six months. The future general activity index dropped notably this month, decreasing from 52.2 in December to 32.6 (see Chart). Firms are divided about the future: although 33 percent of the

firms expect no change in overall business over the next six months, the percentage expecting increases (45 percent) continues to exceed the percentage expecting decreases (12 percent). Indicators for expected new orders and shipments also declined from their December readings: the future new orders index fell from a revised 48.1 to 35.7, and the future shipments index declined from a revised 49.5 to 32.6. Fewer firms are expecting declines in inventories over the next six months compared with the previous month: the future inventories index fell from 0.5 in December to -3.2 this month.

Firms' expectations regarding employment were less encouraging this month. The future employment index fell from 12.3 in December to 5.4. Although one-half see increases in new orders over the next six months, only 22 percent expect to increase their payrolls; 16 percent expect to decrease them. Firms' expectations about capital expenditures continue to be muted. Only 19 percent of the manufacturers report that they will increase spending on capital over the next six months; 9 percent expect to decrease spending. The index for future capital spending fell marginally from 10.5 in December to 9.5 this month.

This month, firms were asked about their current rates of plant utilization (*see Special Questions*). About 15 percent of the firms reported capacity utilization rates of less than 60 percent, and 62 percent of the firms reported rates at 75 percent or less. About 70 percent of the firms indicated they would not increase

Special Questions (January 2003)

Which of the following best characterizes your current capacity utilization rate?

Capacity utilization rate (%)

< 60
60-65
65-70
70-75
75-80
80-85
85-90
90-95
95-100

Respondents reporting that rate (%)

15.2
9.8
19.6
17.4
19.5
4.3
3.3
7.6
3.3

If production increases (%)

0-5
5-10
10-15
15-20
> 20

Firms that would likely increase employment (%)

3.3
26.1
29.3
26.1
15.2

If production increases (%)

0-5
5-10
10-15
15-20
> 20

Firms that would likely increase spending on plant and equipment (%)

5.8
8.0
13.8
32.2
40.2

employment unless production increased more than 10 percent. About 72 percent of the firms indicated they would not increase spending on

plant and equipment unless production increased more than 15 percent.

BUSINESS OUTLOOK SURVEY

Summary of Returns January 2003

	January vs. December				Six Months from Now vs. January			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	15.1	54.5	26.3	11.2	12.1	33.0	44.7	32.6
Company Business Indicators								
New Orders	16.5	49.7	33.8	17.3	14.3	28.1	50.0	35.7
Shipments	12.4	51.1	33.7	21.3	14.3	32.5	46.8	32.6
Unfilled Orders	15.0	70.1	13.5	-1.5	15.6	50.1	28.7	13.1
Delivery Times	16.2	73.2	8.9	-7.3	10.2	66.3	17.5	7.3
Inventories	32.6	47.6	15.3	-17.3	26.2	42.5	22.9	-3.2
Prices Paid	5.9	76.2	17.5	11.6	8.9	61.9	20.8	11.9
Prices Received	6.3	79.9	12.7	6.3	8.0	72.7	11.4	3.4
Number of Employees	15.9	70.9	9.8	-6.1	16.2	55.8	21.6	5.4
Average Employee Workweek	15.4	62.0	19.2	3.8	11.4	55.6	24.5	13.1
Capital Expenditures	6	6	6	6	9.3	42.6	18.8	9.5

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.

Survey results reflect data received through January 10, 2003.

Summary

Manufacturing conditions have shown gradual improvement over the past few months. Firms report an increase in general activity and new orders this month and a notable increase

in shipments compared with December. Firms report declines in employment, however, and firms' low rates of capacity utilization suggest that substantial employment increases will be unlikely in the foreseeable future. Firms'

expectations for the next six months also showed some deterioration this month, although firms expecting improvement outnumber those expecting declines 4 to 1.

Business Outlook Survey
Selected Revised Diffusion Indexes
(1995-2002)*

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current General Activity												
1995	8.9	9.3	2.1	-11.2	-8.5	-21.0	-19.7	1.1	26.2	21.8	5.3	19.5
1996	-14.6	4.9	-3.2	21.0	19.6	21.0	29.3	13.7	12.9	8.3	11.0	8.0
1997	12.8	17.0	13.7	6.3	1.2	17.9	20.2	17.2	18.9	19.4	19.8	15.5
1998	18.7	13.3	10.9	8.3	13.2	23.9	8.4	10.3	-14.4	3.5	-4.7	4.7
1999	14.2	15.5	4.8	20.0	13.0	5.5	9.6	13.3	13.6	15.8	21.2	14.8
2000	12.6	15.3	19.3	8.5	13.5	2.3	4.2	16.9	4.7	1.6	7.3	-6.4
2001	-33.6	-28.0	-20.8	-12.8	-13.2	-7.4	-13.1	-17.8	-10.3	-23.6	-17.8	-8.3
2002	15.2	13.5	9.2	10.4	7.3	20.4	5.9	-0.3	0.4	-7.5	6.5	11.3
Current New Orders												
1995	8.3	11.3	6.7	-7.6	-12.9	-20.7	-17.3	-7.0	30.0	16.6	7.1	13.7
1996	-16.2	1.7	-1.3	16.8	24.2	23.3	25.9	16.0	17.7	10.3	11.4	11.5
1997	19.4	18.7	16.1	10.0	5.5	16.7	24.1	16.8	20.6	17.0	17.4	16.2
1998	15.8	22.7	14.8	11.2	16.1	17.3	8.0	10.2	-1.9	7.4	-7.1	7.4
1999	20.1	18.6	19.5	18.2	18.6	13.8	9.7	16.8	9.4	28.5	19.9	17.4
2000	7.4	12.3	16.5	15.0	13.0	5.9	6.3	13.3	12.9	3.8	2.3	5.9
2001	-24.1	-16.3	-7.1	-9.3	-8.6	-10.3	-6.7	-18.8	-1.1	-10.4	-18.7	-2.1
2002	14.2	12.4	6.1	10.0	8.3	17.9	5.9	0.7	4.2	3.6	9.1	13.2
Current Shipments												
1995	9.9	25.6	12.1	-2.1	-2.4	-8.6	-13.1	9.1	27.4	15.9	-1.2	13.7
1996	10.9	13.4	-2.9	25.3	27.4	26.7	33.3	16.8	25.2	12.4	16.9	12.7
1997	14.6	12.1	19.4	16.0	10.1	8.6	25.1	16.6	16.0	14.6	14.2	12.3
1998	16.9	16.9	12.4	14.0	11.7	21.2	6.7	17.7	8.3	15.5	-2.4	14.8
1999	18.3	14.3	12.9	12.1	16.3	10.2	15.4	15.5	8.7	25.5	29.4	16.5
2000	18.3	21.1	21.8	14.8	11.9	3.8	14.3	13.9	13.6	-7.8	16.7	6.3
2001	-27.3	-31.9	-4.7	-3.4	-3.7	-7.9	-16.5	-13.1	-9.0	-9.8	-17.1	-4.3
2002	14.3	10.6	5.8	12.5	12.9	12.4	6.7	0.5	7.3	2.1	4.3	4.8
Current Unfilled Orders												
1995	-3.0	-11.8	-12.7	-27.8	-18.4	-28.7	-42.7	-14.7	5.3	-1.3	-4.7	-5.2
1996	-31.4	-17.3	-12.4	-13.3	-5.6	5.9	-1.9	-1.6	3.7	-10.1	-5.8	-6.5
1997	-9.9	-5.2	-10.1	-6.1	-6.5	-2.2	-0.5	-5.0	-1.7	-7.2	-6.0	-7.9
1998	9.6	-0.5	-3.0	-4.8	-0.2	2.6	5.8	-7.0	-9.4	-10.4	-11.0	-4.7
1999	-3.0	-6.0	-3.3	-1.2	-5.7	-6.8	-5.3	2.7	-2.4	-0.2	0.2	-1.1
2000	0.7	4.0	2.0	-0.8	-4.6	-9.9	-11.3	1.6	-16.6	-3.0	0.4	-14.2
2001	-21.5	-15.9	-20.5	-20.9	-16.9	-8.9	-16.6	-22.9	-12.3	-14.3	-12.8	-13.5
2002	-5.4	-9.1	-3.5	-1.5	-10.6	13.1	-5.4	-13.4	-7.2	-19.3	-4.6	-0.6
Current Delivery Times												
1995	-8.8	-8.6	-15.2	-15.6	-16.8	-24.8	-23.3	-16.8	-7.3	-4.9	-2.0	-0.8
1996	-9.2	-12.5	-3.5	-14.1	-7.9	0.6	1.5	-5.9	-3.8	-13.0	-8.3	-7.0
1997	-10.3	-5.2	-3.4	-7.9	-12.8	-4.3	-4.8	-2.3	0.2	-8.7	-6.0	-8.1
1998	7.3	-5.7	-4.0	-4.7	0.8	-6.3	5.6	0.4	-5.8	-1.3	-8.0	-6.9
1999	8.6	-3.2	-5.5	-0.3	-6.5	-1.7	-4.0	-1.6	-5.1	-6.4	-0.4	-7.7
2000	-3.2	-1.1	0.4	0.1	5.5	-11.9	-6.2	-10.0	-15.1	-6.2	-9.6	-11.7
2001	-18.4	-10.9	-22.1	-17.5	-14.6	-14.3	-13.6	-26.3	-13.0	-15.3	-9.8	-10.9
2002	-12.3	2.1	-1.1	-6.1	-11.4	-1.9	-10.7	-4.1	-1.5	-10.9	-8.6	-2.9

* Revised historical data prior to 1995 and revisions to other series are available on the Bank's Internet site at www.phil.frb.org/econ/boshistory.html.

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current Inventories												
1995	-13.2	-3.1	-10.5	-9.7	-17.0	-6.2	-15.6	-17.1	-6.4	-1.5	1.4	-15.5
1996	-7.0	-13.4	-13.0	-17.0	-10.4	-12.9	-6.7	-15.9	-12.1	-4.5	-11.9	-2.9
1997	-4.5	-8.1	-13.6	-7.7	-13.3	-5.2	-6.2	-5.1	-4.3	-12.2	-6.7	-8.4
1998	-4.7	-7.4	-3.3	-16.2	-1.4	-6.7	-10.0	-13.8	-14.6	-14.9	-13.7	-15.8
1999	-17.6	-10.5	-10.9	-1.1	-16.1	-11.9	-9.7	-6.0	-1.8	-9.2	9.0	2.3
2000	4.0	-7.8	2.0	5.7	5.2	-1.6	-0.8	-10.6	-0.4	7.1	-3.5	-11.9
2001	-11.2	-5.9	-25.4	-18.3	-11.3	-18.4	-16.7	-20.4	-24.5	-17.4	-13.1	-16.5
2002	-17.3	-14.2	-9.6	-11.9	-17.0	-8.0	-12.3	7.7	-7.6	-2.3	-4.5	10.5
Current Prices Paid												
1995	55.5	47.4	42.5	32.6	30.9	25.7	23.0	16.5	13.7	24.9	10.2	2.2
1996	12.9	-1.2	-0.1	11.0	11.2	15.2	11.8	6.6	15.6	19.3	13.6	11.6
1997	8.3	12.2	11.8	16.8	15.1	13.6	17.4	16.8	12.7	17.1	17.9	20.4
1998	16.5	11.3	10.2	3.0	2.6	2.9	-4.7	-7.7	-5.1	-10.0	-9.0	-8.0
1999	-7.6	-6.8	1.5	2.2	2.5	8.9	14.7	12.4	11.6	26.7	27.0	26.1
2000	24.4	38.5	31.6	31.1	28.9	26.8	26.3	27.9	24.7	25.4	23.0	17.8
2001	14.0	12.1	13.9	5.5	-0.6	13.4	-5.0	-10.4	-12.9	-17.4	-14.5	-9.4
2002	-5.4	-5.4	2.6	5.9	16.5	19.2	17.9	22.1	20.5	18.6	16.6	17.7
Current Prices Received												
1995	23.0	15.5	15.0	6.3	6.2	-1.0	-5.2	-5.2	3.2	1.0	-5.9	-6.1
1996	-7.4	-16.2	-9.3	-5.1	-3.1	-2.6	-1.6	-3.1	4.0	3.3	-1.6	2.0
1997	2.2	3.7	-3.3	-2.0	-1.6	0.7	3.5	0.6	-1.3	1.1	5.2	1.8
1998	3.2	0.3	-1.9	0.9	-1.2	-2.5	-6.6	-8.4	-10.9	-11.8	-14.3	-11.9
1999	-14.5	-6.3	-8.9	-7.8	-6.9	-10.7	-3.8	2.5	2.3	5.3	10.5	3.4
2000	8.7	9.0	7.4	16.6	7.0	4.9	6.7	1.5	-0.5	3.4	0.6	-1.5
2001	-3.7	-2.4	-5.5	-9.1	-3.1	-9.4	-11.3	-11.7	-12.7	-12.2	-12.8	-13.3
2002	-6.7	-4.2	-0.9	0.7	6.4	5.8	1.0	2.2	4.5	-4.8	-6.1	2.9
Current Number of Employees												
1995	1.7	9.9	0.3	-18.6	-14.7	-13.9	-20.1	-13.1	8.7	2.4	-3.3	-10.9
1996	-9.0	-7.9	-4.1	0.1	3.9	3.0	7.6	3.0	7.5	-0.4	2.2	-0.9
1997	5.0	2.6	4.6	4.5	6.3	8.6	5.4	10.0	-3.0	2.6	3.6	9.5
1998	0.9	15.2	9.1	-4.9	4.5	5.7	4.7	5.9	0.4	8.3	3.0	3.4
1999	2.3	-0.4	-1.1	2.4	3.8	1.5	1.3	3.1	8.3	9.3	16.8	16.2
2000	12.5	15.2	13.5	12.5	7.9	2.5	7.7	12.8	6.2	2.1	-4.0	-8.5
2001	-20.9	-7.6	-9.3	-14.2	-13.2	-15.3	-8.6	-13.8	-18.5	-24.9	-20.9	-17.9
2002	-9.1	-13.9	-6.7	-5.3	3.2	-3.9	-7.0	-13.1	-5.2	-3.4	0.6	-0.9
Current Average Employee Workweek												
1995	-7.3	-0.5	-7.3	-11.5	-19.8	-16.3	-22.3	-5.1	-2.6	-5.3	-6.5	-10.9
1996	-9.3	-10.8	-13.6	2.5	4.7	1.5	5.5	-0.7	-0.1	-5.9	-4.6	2.0
1997	6.3	-0.1	-0.2	-0.6	-2.8	-3.3	-1.3	0.0	-3.0	-0.5	-1.8	1.9
1998	6.4	9.0	-0.3	-9.1	-1.2	4.5	-3.8	-2.4	-3.6	-0.5	-18.0	7.1
1999	-6.4	-6.5	6.8	8.1	1.1	5.6	-1.4	4.7	-3.4	6.3	5.8	1.4
2000	1.7	7.5	13.9	5.4	4.0	-5.3	4.6	0.7	-0.8	-9.0	-1.3	-12.8
2001	-24.4	-23.0	-15.0	-26.0	-19.3	-18.5	-18.4	-22.9	-18.9	-20.2	-12.6	-13.8
2002	-5.2	-3.3	-10.3	-3.4	-0.4	-2.0	-7.1	-6.8	-2.0	-3.3	-7.1	-1.0
Future General Activity												
1995	16.6	8.7	-6.0	-1.1	14.8	15.4	23.4	28.5	27.4	31.6	29.3	7.2
1996	23.2	28.2	19.8	23.6	28.0	41.6	38.2	25.6	23.3	21.2	18.7	32.3
1997	26.1	27.7	23.2	23.7	15.3	18.5	14.6	17.3	25.1	28.1	30.1	27.4
1998	18.1	15.6	27.7	22.3	23.6	5.6	-5.3	6.1	3.1	2.2	10.9	18.0
1999	25.4	25.3	21.9	22.1	24.3	11.5	9.5	20.5	-5.4	11.1	22.5	28.3
2000	20.2	19.7	7.7	3.5	5.8	7.1	15.7	13.7	22.5	11.9	8.4	-1.5
2001	-12.7	7.9	21.0	29.3	31.4	48.8	33.8	38.9	46.8	48.1	46.2	48.8
2002	53.6	52.9	56.7	51.9	52.2	53.1	49.1	43.8	45.1	49.6	50.4	52.2