



# BUSINESS OUTLOOK SURVEY

June 2003

Activity in the region's manufacturing sector improved modestly, according to firms surveyed for this month's *Business Outlook Survey*. Most indicators pointed to some improvement over the last two months, and for the first time in four months more firms reported increases in business activity than reported decreases. Expectations for growth over the next six months continue to be optimistic, although the firms' longer-run outlook for capital spending remains subdued.

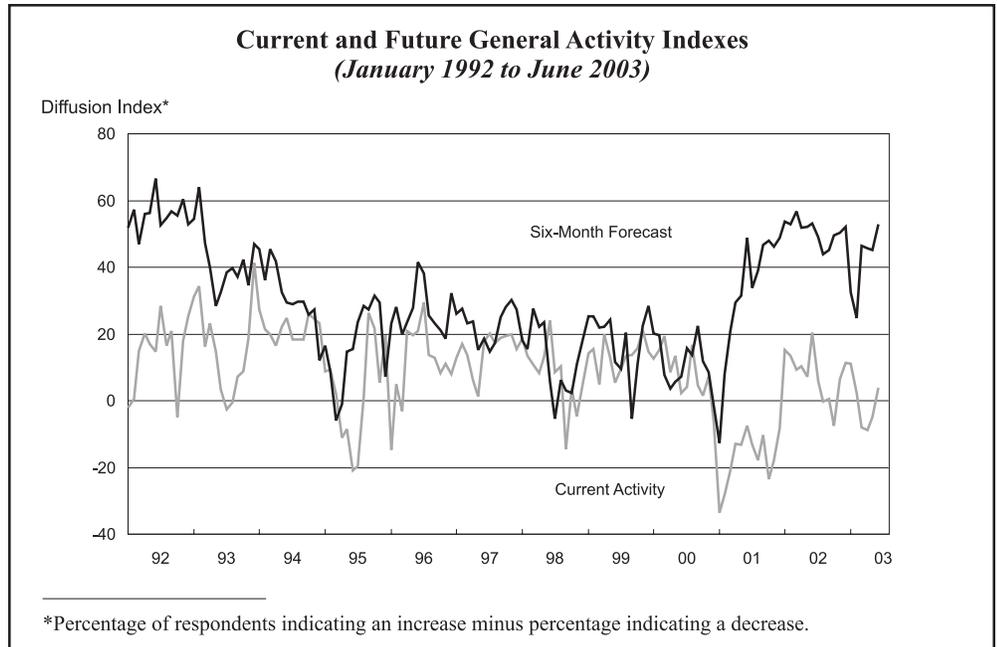
## First Positive Reading Since February

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from -4.8 in May to 4.0 this month. This is the first positive reading for the index since February (see Chart). The new orders index also edged slightly higher, to near zero this month. Although not yet indicative of growth, the index has now improved in two consecutive months. The shipments index also increased slightly this month to just below zero. Portending some improvement in the near term, more firms reported an increase in unfilled orders than a decline. The current unfilled orders index increased notably from -7.4 in May to 7.9 this month. The index for delivery times improved moderately but remained negative. Inventories increased in June for the first time in six months – the current inventory index rose 14 points, moving into positive territory.

Overall weakness in manufacturing, however, continues to be evident in firms' responses regarding employment. The current employment index remained negative and diminished marginally from its reading in May. Firms also reported continued declines in the average workweek this month.

## Lower Prices Reported This Month

Nearly 17 percent of the manufacturing firms polled reported declines in prices of their own manufactured goods this month, exceeding the 7 percent that reported higher prices. The prices received index was negative for the first time in three months. Input price pressures moderated again this month. The



current prices paid index fell another three points to 5.8, after falling 14 points last month. The index is now at its lowest reading in 15 months.

Firms' expectations regarding future prices for their own manufactured goods increased slightly this month. The future prices paid index, however, declined to its lowest reading in five months.

## Firms' Expectations Show Marginal Improvement

Along with improved readings for current conditions, firms' expectations about future activity also showed improvement. The future general activity index increased to its highest reading in a year (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 (8 percent). Indicators for future new orders and shipments also increased this month, surpassing readings over the last year. Firms see unfilled orders increasing over the next six months, although delivery times are expected

to remain steady. Slightly more firms expect declines in inventories than expect increases.

The outlook for employment and capital spending also improved this month. Almost 28 percent of the firms anticipate adding workers over the next six months, although 13 percent will trim the number of workers, and the future employment index increased by seven points. On balance, firms continue to expect average work hours to increase over the next six months. The future capital spending index increased by four points in June, but its current reading remains below its average reading last year.

Firms were asked about their plans for spending on plant and equipment over the next 12 months (see *Special Questions*). Over 33 percent of the firms indicated they planned to increase spending on plant and equipment over the next 12 months. About 25 percent, however, plan decreases. For firms planning increased spending, 59 percent cited sales growth as the underlying reason. High utilization rates were cited as another reason by 41 percent of the firms. For firms expecting declines in capital spending, one-half cited slow

sales growth as a reason. Cash flow and limited investment needs were each reported as reasons for planned capital spending declines by one-third or more of the firms polled. About 22 percent of the firms cited low utilization rates as the reason for planned capital spending reductions.

### Summary

The region's manufacturing sector showed signs of improvement this month, although overall growth is still not substantial. New orders and shipments are reported flat this month, but general activity is regarded as improved. A larger share of firms reported

declines in prices of their own manufactured goods this month, and there is less pressure on input prices. In general, manufacturers are more optimistic, but expectations for employment and capital spending growth are subdued.

### Special Questions (June 2003)

#### 1. How do you plan to change spending on new plant and equipment over the next 12 months relative to the past 12 months?

Increase ..... 33.3%      Decrease ..... 24.5%      Leave unchanged ..... 42.2%

#### If you plan to increase spending, when will you place the order?

Already placed .....	41.2%	2004:Q1 .....	5.9%
2003:Q3 .....	26.5%	2004:Q2 .....	0.0%
2003:Q4 .....	26.5%		

#### Why are you increasing capital spending? \*

Sales growth .....	58.9%	Favorable financing .....	5.9%
High utilization .....	41.2%	Cash flow improved .....	11.8%
Investment needs for information technology .....	14.7%	Tax incentives .....	0.0%
Other investment needs .....	17.6%	Other reason .....	20.6%

#### 2. Why do you plan to decrease or leave unchanged capital spending? \*

Slow sales growth .....	50.0%	Unfavorable financing .....	1.5%
Low utilization .....	22.1%	Cash flow not improved .....	33.8%
Limited investment needs for information technology .....	8.8%	Other reason .....	1.5%
Limited other investment needs .....	32.3%		

\* The total exceeds 100 percent because firms could choose more than one reason.

### BUSINESS OUTLOOK SURVEY

#### Summary of Returns

June 2003

	Previous Diffusion Index	June vs. May			Diffusion Index	Previous Diffusion Index	Six Months from Now vs. June			Diffusion Index
		Increase	No Change	Decrease			Increase	No Change	Decrease	
What is your evaluation of the level of general business activity?	<b>-4.8</b>	28.2	44.5	24.2	<b>4.0</b>	45.2	60.6	24.8	7.8	<b>52.8</b>
Company Business Indicators										
New Orders	-3.8	28.2	41.6	28.7	<b>-0.5</b>	50.7	65.2	19.5	6.7	<b>58.5</b>
Shipments	-2.3	28.8	40.9	30.0	<b>-1.2</b>	46.8	61.9	18.6	11.1	<b>50.8</b>
Unfilled Orders	-7.4	26.0	52.7	18.1	<b>7.9</b>	12.9	31.7	50.4	8.9	<b>22.8</b>
Delivery Times	-12.5	9.2	72.7	17.2	<b>-8.0</b>	1.0	16.1	59.8	15.5	<b>0.6</b>
Inventories	-7.3	30.9	44.2	23.7	<b>7.2</b>	-4.0	21.7	42.6	29.4	<b>-7.7</b>
Prices Paid	8.9	16.4	72.9	10.6	<b>5.8</b>	27.3	24.0	62.8	6.9	<b>17.1</b>
Prices Received	2.1	7.3	76.0	16.7	<b>-9.5</b>	3.4	19.2	63.2	11.6	<b>7.6</b>
Number of Employees	-10.9	11.1	63.8	24.0	<b>-12.9</b>	7.5	27.8	52.3	13.0	<b>14.8</b>
Average Employee Workweek	-9.1	12.5	59.2	22.6	<b>-10.1</b>	15.7	25.0	55.8	9.7	<b>15.3</b>
Capital Expenditures	—	—	—	—	—	8.4	25.3	43.2	13.0	<b>12.3</b>

#### 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 June 11, 2003.