



BUSINESS OUTLOOK SURVEY

September 2003

The region's manufacturing sector improved again this month, according to firms surveyed for the Philadelphia Fed's Business Outlook Survey. Most indicators pointed to some improvement, but overall manufacturing employment declined. Expectations for growth over the next six months rose again in September, and many future indicators are now at their highest readings since 1992.

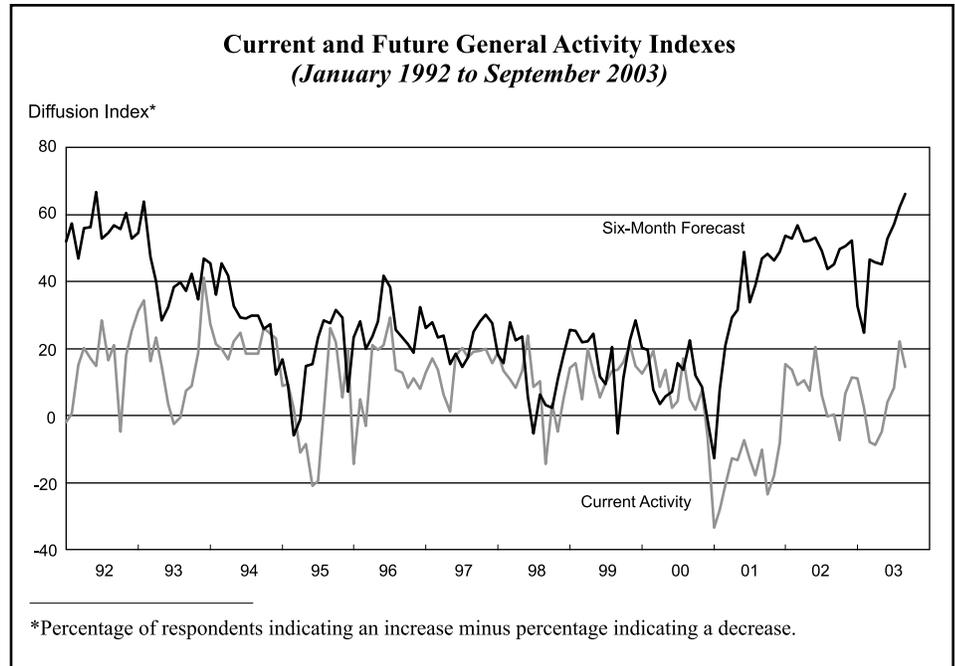
New Orders Are on the Rise

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, continued to reflect expansion, although at a slower rate. The index declined from 22.1 in August to 14.6 this month (see Chart). This is the fourth consecutive month the index has been positive. The current new orders index showed further improvement, increasing 5 points to 19.3 this month, its highest reading in 46 months. The current shipments index dipped slightly from 16.3 in August to 13.2. Indexes from the survey suggest delivery times and inventories were unchanged this month.

There was little appreciable improvement in manufacturing employment in September. The current employment index remained negative, although it improved slightly from -8.7 to -4.7. The average workweek has shown some modest improvement in the past several months—the workweek diffusion index remained slightly positive for the third consecutive month.

Input Price Index Continues to Rise

Firms reported higher input prices this month. The index for current prices paid rose from 16.0 to 22.5 this month, after increasing nearly 23 points in August. Twenty-five percent of the manufacturers reported higher input prices this month; only 3 percent reported lower prices. Despite higher input



prices, firms reported only slightly higher prices of their own manufactured goods. The largest percentage of firms (75 percent) reported no change in prices of their own goods, although the prices received index increased from 1.1 to 4.8, its highest reading in five months.

Future Indicators Continue to Rise

Expectations for future manufacturing growth continue to improve. The diffusion index for future manufacturing activity rose from 62.0 to 66.2, its fourth consecutive increase and highest reading since June 1992 (see Chart). Both the future new orders and future shipments indexes increased 9 points this month.

In special questions this month, firms were asked about their production plans for

the fourth quarter (see Special Questions). More than 41 percent of the firms indicated that they expect production to increase in the fourth quarter (28 percent expect the rise to be greater than 5 percent). When asked if their production plans had changed over the past few months, 30 percent of the firms indicated that they had recently increased their fourth-quarter production plans; only 10 percent had lowered their plans.

Expectations regarding future employment and capital spending continue to reflect a relative degree of caution. The manufacturing executives' six-month outlook for future employment showed only slight improvement this month—the future employment index increased just two points. Although almost 70 percent of the manufacturing executives surveyed expect growth

Special Questions (September 2003)

1. For the fourth quarter, production and inventories of finished goods, on average, are expected to:

	Production (%)	Inventories (%)
Decline more than 10%	12.5	11.4
Decline 5-10%	5.0	7.6
Decline less than 5%	5.0	12.7
Stay at current levels	36.2	45.6
Increase less than 5%	13.8	16.4
Increase 5-10%	21.3	3.8
Increase more than 10%	6.2	2.5
Total	100.0	100.0

2. In the past several months, have your plans for fourth-quarter production:

	Percentage
Increased	30
Decreased	10
Remained the same	60
Total	100

in new orders over the next six months, only 31 percent expect to increase employment and 21 percent expect to increase capital spending.

Summary

Indicators suggest that the region's manufacturing sector continues to improve. Although the general activity index fell this month, it has remained positive for the fourth consecutive month. Firms report continued growth in new orders and shipments. Firms' expectations for growth over the next six months continued to improve in September, and a significant percentage of firms indicated that they had recently increased their fourth-quarter production plans. Manufacturing executives' outlook for overall activity continued to improve, but their expectations for growth in employment and capital spending have not yet shown significant improvement.

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Summary of Returns September 2003

	Previous Diffusion Index	September vs. August				Six Months from Now vs. September				
		Increase	No Change	Decrease	Diffusion Index	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	22.1	30.2	53.1	15.6	14.6	62.0	68.0	21.9	1.8	66.2
Company Business Indicators										
New Orders	14.6	34.4	47.3	15.1	19.3	57.9	69.0	21.6	2.3	66.6
Shipments	16.3	35.5	41.9	22.3	13.2	56.1	66.6	19.7	1.3	65.3
Unfilled Orders	1.1	17.8	71.0	11.2	6.5	20.5	29.7	54.7	3.5	26.2
Delivery Times	0.5	8.8	77.4	10.9	-2.1	0.9	17.1	65.9	5.5	11.6
Inventories	6.4	19.7	61.6	16.9	2.8	2.9	20.4	50.5	19.4	0.9
Prices Paid	16.0	25.3	71.0	2.9	22.5	19.4	28.9	59.8	2.8	26.1
Prices Received	1.1	14.6	75.1	9.8	4.8	8.3	18.9	64.7	8.9	10.0
Number of Employees	-8.7	16.7	62.0	21.3	-4.7	18.3	31.2	49.6	10.7	20.5
Average Employee Workweek	4.7	18.5	65.6	15.0	3.5	21.8	26.4	59.0	5.0	21.3
Capital Expenditures	—	—	—	—	—	14.6	20.6	43.2	11.4	9.2

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 September 12, 2003.