

BUSINESS

O U T L O O K

Federal Reserve Bank
of Philadelphia

Survey

May 2001

Manufacturing firms in the region report continued weakness in business conditions this month. Indicators of current manufacturing activity suggest no improvement in demand for manufactured goods, and respondents reported reductions in employment and work hours again this month. The firms' expectations for the next six months, however, continue to improve.

Current Indicators Are Near Previous Month

The percentage of firms reporting declines in business activity (28 percent) exceeded the percentage reporting increases (19 percent) for the sixth consecutive month. The current activity index declined slightly from -7.2 in April to -8.8.

The demand for manufactured goods appears weak again this month: the percentage of firms indicating a decline in new orders (32 percent) exceeded the percentage indicating an increase (27 percent). Like the general activity index, the new orders index declined slightly from its April reading of -3.9 to -4.8.

Most of the other indexes remained negative but improved somewhat this month. The number of unfilled orders continues to decrease: the current unfilled orders index remained negative but increased from -18.9 in April to -15.1 this month. Delivery times are shorter again this month, but the current delivery

Table

Special Question (May 2001)

To what extent have you changed your planned spending on capital since January 1, 2001?

	Percentage of firms*
Increased Significantly	4%
Increased Somewhat	11%
No Change	37%
Decreased Somewhat	14%
Decreased Significantly	21%
Delayed Until Later in the Year	13%
Postponed Indefinitely	6%

*Percentages may not add up to 100% because firms were allowed to choose more than one category.

times index increased from -15.7 to -10.7. Current shipments, on the other hand, was the only index in positive territory, increasing from 1.3 in April to 3.7. The current inventories index remained negative but increased from -16.6 to -10.5 this month.

Firms reduced their payrolls again this month. The percentage of firms reporting lower employment (26 percent) exceeds the percentage with higher employment (15 percent). The current employment index, which has now remained negative for seven consecutive

months, increased slightly from -12.9 in April to -11.1. The average workweek index also remained negative but improved from -28.0 in April to -14.6.

Prices Are Near Steady

The current prices paid index declined from 7.0 in April to 1.5 in May, its lowest reading since February 1999. The percentage of firms reporting higher prices for purchased inputs (15 percent) was only slightly larger than the percentage reporting lower input prices

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(13 percent). Prices of final manufactured goods are also reported as steady: the percentage of firms reporting lower prices (12 percent) is greater than the percentage reporting higher prices (10 percent) for the seventh consecutive month.

Conditions Will Improve Over Next Six Months

The index of future general activity increased notably from 25.7 in April to 33.1 this month. Nearly 50 percent of the manufacturing firms surveyed expect business conditions to improve over the next six months; only 17 percent expect deterioration in conditions. Nearly 57 percent of firms expect increases in new orders, and more than 50 percent expect increases in shipments.

More firms expect increases in employment over the next six months (29

percent) than decreases (20 percent). The future employment index suggests a lower level of optimism than in the preceding survey: it declined from 17.8 in April to 9.6 this month.

To gauge the impact of current weakness in the manufacturing sector on capital spending, we asked survey participants a special question about changed spending plans since January. The results indicate that a sizable share of firms have reduced spending plans since January (see Table on front). Thirty-five percent of the firms indicated decreases in their spending plans (14 percent reduced spending "somewhat" and 21 percent reduced spending "significantly"); 15 percent indicated increases. Thirteen percent of the firms surveyed indicated that they have delayed spending until later in the year,

and 6 percent have postponed spending plans indefinitely.

Summary

The region's manufacturing sector showed no improvement this month. Current indicators of business conditions suggest slight decline in overall business activity and a continued lull in new orders and shipments. The firms surveyed also report lower employment and a decline in work hours this month. The pace of capital spending is reported to have been influenced by the decline in manufacturing since the beginning of the year. The manufacturers' overall forecasts, despite the current lull in business, indicate that growth is expected to pick up over the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns May 2001

	May vs. April				Six Months from Now vs. May			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	28.0	47.7	19.2	-8.8	16.6	29.3	49.6	33.1
Company Business Indicators								
New Orders	32.2	39.0	27.4	-4.8	15.7	21.6	56.8	41.1
Shipments	29.0	37.8	32.7	3.7	21.6	25.1	50.4	28.8
Unfilled Orders	26.7	60.8	11.6	-15.1	19.6	56.5	13.0	-6.7
Delivery Times	16.7	71.9	6.0	-10.7	20.0	55.2	16.5	-3.6
Inventories	29.1	51.8	18.6	-10.5	36.4	37.2	20.1	-16.3
Prices Paid	13.0	72.5	14.5	1.5	15.6	50.3	29.6	14.1
Prices Received	11.7	78.8	9.5	-2.2	8.9	59.4	26.6	17.7
Number of Employees	25.9	59.4	14.7	-11.1	19.8	45.2	29.4	9.6
Average Employee Workweek	26.7	59.5	12.2	-14.6	19.6	52.9	21.0	1.5
Capital Expenditures	—	—	—	—	18.4	36.2	26.7	8.4

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 May 10, 2001.