



# BUSINESS OUTLOOK SURVEY

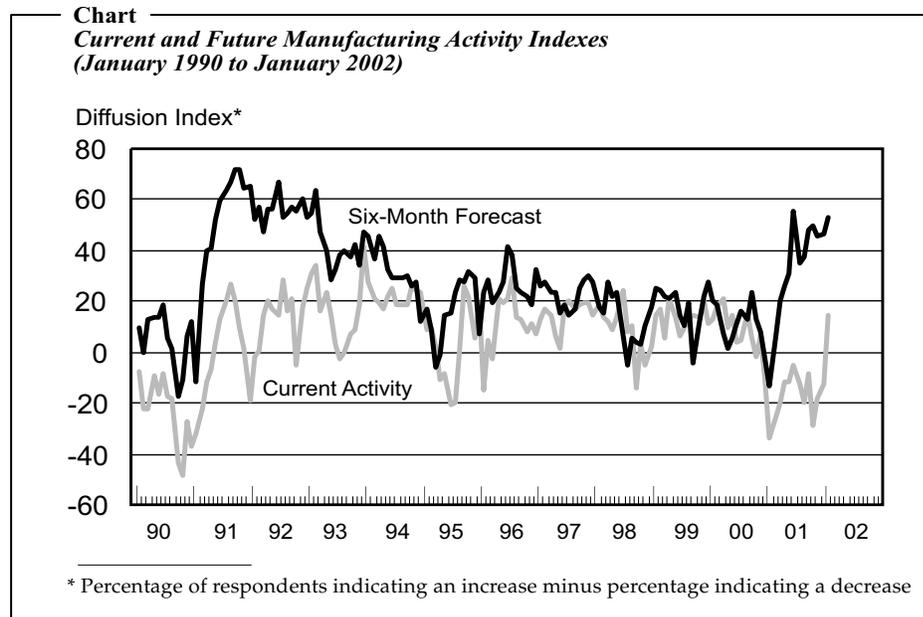
## January 2002

For the first time in more than a year, manufacturing firms' responses from the *Business Outlook Survey* indicate an increase in activity. Most indicators of current manufacturing performances showed marked improvement this month, although employment is still reported to be in decline. Expectations for growth over the next six months also improved somewhat.

### Current Indicators Improve This Month

The index of current general activity increased from a revised reading of -12.6 in December to 14.7 this month, the first reading above zero since November 2000 (see Chart).<sup>1</sup> A recovery in the manufacturing sector is not guaranteed by one month's increase in activity. But almost one-third of the manufacturers reported growth in overall business; 18 percent reported deterioration. Other survey indicators showed a similar improvement compared to December. The current new orders index increased from a revised -6.2 in December to 12.6 this month, the first positive reading in 13 months. The current shipments index also improved, from a revised -12.1 to 14.4. Unfilled orders continued to decline, but the index rose from -13.7 in December to -7.0 this month. Delivery times are, on balance, shorter: the delivery times index remained negative, falling slightly from a revised -11.6 last month to -14.4.

Demand for labor continues to be



weak, and firms shed fewer jobs this month compared to previous months. The current employment index improved significantly, however, from a revised -21.9 in December to -9.3 this month, its highest reading in six months. Although 10 percent of firms reported increases in employment this month, 19 percent reported reductions. The current average workweek index also showed improvement this month, increasing from a revised -15.6 in December to -5.0.

### No Price Pressures Evident

Survey indicators continue to suggest diminished price pressures for both inputs and manufactured goods. For the

seventh consecutive month, more firms reported declines in prices for inputs (18 percent) than increases (13 percent). With regard to prices of their own manufactured goods, 15 percent of the firms reported lower prices; 8 percent reported higher prices. The prices received index, which has remained negative for 15 consecutive months, was less negative this month.

### Six-Month Forecasts Show Optimism

Manufacturing firms are apparently beginning 2002 optimistic about business growth over the next six months. Nearly 64 percent of the firms expect growth in overall business over the next six months,

<sup>1</sup> Each year, the Federal Reserve Bank of Philadelphia revises historical data for the *Business Outlook Survey* after calculating new seasonal adjustment factors. The supplemental tables included with this month's release contain revised data for all of the current diffusion indexes and the future general activity index. Since all of the series were affected by the revisions, the complete revised series as well as revised historical data prior to 1995 are available on our Internet site with detailed instructions for downloading. The address is <http://www.phil.frb.org/econ/bos/boshistory.html>.

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and only 11 percent expect deterioration in business. The future general activity index edged higher this month, increasing from a revised 46.7 in December to 53.2 (see Chart). Indicators for expected new orders and shipments also increased from their December readings: the future new orders index jumped from 37.7 in December to 51.1 this month, and the future shipments index increased from a revised 39.1 to 50.0. Firms, on balance, expect unfilled orders to increase from current levels, and delivery times are expected to edge up some. The future inventories index edged higher for the fourth consecutive month, increasing from a revised -6.3 to -5.2, its highest reading in 16 months.

Firms' expectations regarding employment are less encouraging than their outlook for future activity. Although almost 64 percent of the manufacturers expect business growth in the first half of 2002, only 24 percent of the firms expect to expand employment. Over 14 percent of firms expect declines in employment. In response to a special question about employment plans for this year, 15 percent of the manufacturers reported that they expect to hire or rehire workers in the first quarter, and an additional 21 percent re-

*Special Question (January 2002)*

**Which of the following statements best describes your current employment plans for 2002?**

We are planning to hire or rehire workers in the first quarter .....	14.5%
We are planning to hire or rehire workers in the second quarter .....	21.0%
We are planning to hire or rehire workers after the second quarter .....	14.5%
We are planning no change in our workforce this year .....	36.7%
We are planning to reduce our workforce this year .....	13.3%
<b>Total .....</b>	<b>100.0%</b>

ported that they expect to hire or rehire workers in the second quarter (see Special Question). Almost 15 percent reported they plan to hire or rehire workers after the second quarter. Increases in business growth over the next six months will apparently also result in a higher average workweek: the future workweek index edged up from 17.2 in December to 22.1. Nearly one-third of the firms expect higher average hours over the next six months.

Capital expenditure plans improved notably this month. The index for future capital expenditures increased from a revised 9.5 in December to 25.6 this month—the highest reading in 16 months. Nearly

30 percent of the firms expect growth in capital spending over the next six months.

**Summary**

Compared with levels in December, indicators of general activity, new orders, and shipments improved this month. Despite this improvement, employment losses continue, although they are not as great as in previous months. Optimism about recovery of the region's manufacturing sector remains high, and over 35 percent of the firms polled expect to add workers over the first two quarters of the year. This month's survey also suggests an improvement in capital expenditure plans in 2002.

**BUSINESS OUTLOOK SURVEY**

**Summary of Returns  
January 2002**

	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?	17.5	49.7	32.2	14.7	10.7	16.8	63.8	53.2
Company Business Indicators								
New Orders	17.7	52.0	30.3	12.6	11.9	17.8	63.0	51.1
Shipments	17.4	50.1	31.8	14.4	11.7	18.4	61.7	50.0
Unfilled Orders	14.9	77.3	7.8	-7.0	6.9	55.7	30.3	23.4
Delivery Times	17.2	80.0	2.8	-14.4	8.1	72.9	13.2	5.2
Inventories	32.7	49.6	14.8	-17.9	32.6	36.3	27.4	-5.2
Prices Paid	18.4	69.0	12.6	-5.9	10.6	50.0	30.9	20.3
Prices Received	14.6	77.9	7.5	-7.1	10.5	60.1	22.5	12.0
Number of Employees	19.3	68.2	10.0	-9.3	14.3	57.4	24.3	10.1
Average Employee Workweek	21.0	63.0	16.0	-5.0	10.7	50.6	32.8	22.1
Capital Expenditures	—	—	—	—	4.2	42.3	29.8	25.6

- 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 January 10, 2002.

**Business Outlook Survey**  
**Selected Revised Diffusion Indexes**  
(1995-2001)\*

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Current General Activity</b>												
1995	8.8	9.2	2.2	-11.2	-8.5	-20.9	-19.9	1.1	26.2	21.8	5.2	19.5
1996	-14.7	4.8	-3.0	21.2	19.7	21.0	29.2	13.7	13.0	8.2	10.9	7.5
1997	12.8	17.0	14.1	6.6	1.3	18.0	20.1	17.1	19.0	19.1	19.7	14.6
1998	18.7	13.6	11.7	8.6	13.5	24.2	8.3	10.1	-14.0	2.7	-5.1	2.4
1999	14.3	16.6	5.8	20.7	13.5	6.4	9.7	12.5	14.2	13.6	20.5	11.6
2000	12.9	17.4	20.7	9.7	14.3	3.7	4.6	15.4	5.9	-2.0	6.6	-10.6
2001	-33.6	-25.4	-20.1	-11.3	-11.9	-5.0	-12.4	-20.0	-8.8	-28.5	-18.5	-12.6
<b>Current New Orders</b>												
1995	8.3	11.3	6.7	-7.5	-12.8	-20.6	-17.2	-7.0	30.0	16.5	7.1	13.6
1996	-16.3	1.8	-1.4	16.8	24.3	23.3	26.0	16.0	17.7	10.1	11.5	11.1
1997	19.2	18.9	16.1	10.3	5.7	16.9	24.3	16.8	20.6	16.5	17.5	15.3
1998	15.5	23.1	15.0	11.7	16.5	17.7	8.4	9.9	-1.9	6.4	-6.9	5.3
1999	19.6	19.7	19.8	19.1	19.4	14.9	10.2	15.7	9.5	26.6	20.7	14.5
2000	6.7	14.0	16.9	16.5	14.3	7.7	7.0	11.3	13.2	0.8	3.5	2.0
2001	-25.4	-14.6	-6.5	-7.2	-7.0	-7.7	-5.8	-21.8	-0.3	-14.5	-17.3	-6.2
<b>Current Shipments</b>												
1995	9.8	25.5	12.4	-2.1	-2.3	-8.5	-12.9	9.0	27.4	15.9	-1.5	13.1
1996	10.9	13.4	-2.5	25.4	27.6	26.9	33.4	16.9	25.2	12.3	16.4	11.5
1997	14.8	12.7	20.0	16.2	10.4	8.9	25.1	16.8	16.0	14.2	12.9	10.3
1998	17.2	18.4	13.3	14.6	12.3	21.6	6.6	17.8	8.5	14.5	-4.1	11.0
1999	18.8	17.4	13.8	13.3	17.6	11.0	14.9	14.7	9.4	23.4	27.2	10.9
2000	19.0	25.5	22.9	17.0	14.3	5.2	13.3	12.1	15.1	-11.1	14.2	-0.9
2001	-26.8	-26.2	-3.4	-0.2	-0.2	-5.7	-17.9	-15.9	-6.6	-14.3	-19.9	-12.1
<b>Current Unfilled Orders</b>												
1995	-2.9	-11.8	-12.7	-27.9	-18.4	-28.7	-42.7	-14.7	5.3	-1.3	-4.8	-5.2
1996	-31.2	-17.3	-12.4	-13.3	-5.6	5.9	-2	-1.7	3.6	-10.2	-5.8	-6.5
1997	-9.8	-5.2	-10.1	-6.0	-6.5	-2.2	-0.6	-5.2	-1.5	-7.3	-6.0	-7.9
1998	9.6	-0.4	-2.9	-4.6	-0.1	2.7	5.7	-8.0	-8.5	-10.5	-11.2	-4.9
1999	-3.2	-6.0	-2.9	-0.6	-5.2	-6.6	-5.4	0.1	-0.5	-0.5	0.0	-1.3
2000	0.1	3.8	2.7	0.3	-3.7	-9.7	-11.4	-2.7	-13.9	-3.4	0.3	-14.6
2001	-22.6	-16.1	-19.5	-19.4	-15.5	-8.7	-16.8	-28.2	-9.0	-14.7	-12.6	-13.7
<b>Current Delivery Times</b>												
1995	-8.8	-8.6	-15.2	-15.6	-16.8	-24.8	-23.3	-16.8	-7.3	-5.0	-2.0	-0.9
1996	-9.3	-12.5	-3.5	-14.0	-7.9	0.7	1.5	-5.8	-3.7	-13.0	-8.6	-7.2
1997	-10.4	-5.2	-3.3	-7.8	-12.6	-4.0	-4.8	-2.2	0.2	-8.8	-6.4	-8.4
1998	6.9	-5.5	-3.8	-4.5	1.2	-5.6	5.6	0.3	-5.8	-1.5	-8.7	-7.7
1999	7.8	-2.4	-5.0	-0.1	-6.1	-0.3	-4.6	-1.7	-5.0	-7.0	-1.5	-8.6
2000	-4.4	0.5	1.5	0.3	5.9	-9.5	-7.5	-10.1	-14.6	-7.2	-11.3	-12.7
2001	-20.0	-8.9	-20.4	-17.3	-13.9	-11.2	-15.8	-26.9	-12.2	-16.7	-11.9	-11.6

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

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Current Inventories</b>												
1995	-13.2	-3.1	-10.2	-9.7	-17.1	-6.2	-15.6	-17.1	-6.4	-1.5	1.3	-15.6
1996	-7.0	-13.4	-12.5	-17.0	-10.6	-13.0	-6.8	-15.9	-12.2	-4.5	-12.1	-2.9
1997	-4.6	-8.2	-12.9	-7.7	-13.4	-5.2	-6.3	-5.2	-4.4	-12.2	-6.9	-8.3
1998	-4.7	-7.5	-2.6	-16.2	-1.5	-6.7	-10.1	-13.8	-15.0	-14.8	-14.1	-15.6
1999	-17.8	-10.6	-9.7	-0.8	-16.6	-11.8	-10.1	-5.8	-2.7	-9.1	8.1	3.2
2000	3.6	-8.0	3.8	6.5	4.2	-1.3	-1.7	-10.2	-1.8	7.3	-4.8	-10.1
2001	-11.8	-6.3	-23.1	-17.2	-12.6	-17.9	-18.1	-20.0	-26.4	-17.2	-14.9	-13.6
<b>Current Prices Paid</b>												
1995	55.4	47.4	42.4	32.6	30.9	25.8	23.1	16.6	13.7	24.8	10.2	2.2
1996	12.9	-1.2	-0.1	11.0	11.4	15.3	11.9	6.7	15.7	18.9	13.6	11.5
1997	8.2	12.1	11.9	16.9	15.5	13.8	17.5	16.8	12.7	16.3	17.8	20.2
1998	16.4	11.3	10.3	3.3	3.3	3.5	-4.4	-7.5	-5.0	-11.5	-9.5	-8.9
1999	-7.8	-6.7	1.5	2.8	3.9	10.2	14.9	12.9	11.5	24.5	25.6	26.1
2000	24.0	39.0	31.5	32.0	31.0	29.1	26.5	28.8	24.4	22.1	20.7	15.8
2001	13.6	12.9	14.0	6.6	2.3	16.5	-5.0	-8.9	-13.3	-21.4	-17.6	-11.8
<b>Current Prices Received</b>												
1995	23.0	15.5	15.0	6.3	6.2	-0.9	-5.2	-5.2	3.2	1.1	-5.9	-6.1
1996	-7.5	-16.3	-9.3	-5.0	-3.1	-2.4	-1.6	-3.1	4.0	3.2	-1.7	2.0
1997	2.1	3.5	-3.3	-1.8	-1.6	1.1	3.6	0.6	-1.4	1.0	5.0	1.6
1998	3.1	0.1	-1.8	1.3	-1.0	-1.9	-6.5	-8.4	-11.1	-12.1	-14.8	-12.7
1999	-14.6	-6.4	-8.5	-7.2	-6.6	-9.6	-3.7	2.5	2.4	4.3	9.4	2.1
2000	8.4	9.2	8.2	17.3	7.5	6.7	6.8	1.6	-0.2	1.7	-1.1	-3.6
2001	-4.0	-2.1	-4.3	-7.8	-2.4	-6.8	-11.3	-11.7	-12.0	-14.6	-15.1	-15.7
<b>Current Number of Employees</b>												
1995	1.7	9.8	0.3	-18.5	-14.6	-13.9	-20.1	-13.1	8.5	2.4	-3.3	-11.0
1996	-9.0	-7.9	-4.1	0.3	4.2	3.1	7.6	3.0	7.2	-0.5	2.1	-1.0
1997	5.0	2.6	4.6	4.8	6.7	8.7	5.4	9.9	-3.3	2.4	3.4	9.2
1998	0.9	15.1	9.1	-4.5	5.1	6.0	4.8	5.9	0.0	7.9	26.0	2.5
1999	2.4	-0.8	-0.8	3.2	4.8	2.3	1.5	2.9	8.0	8.5	16.4	14.4
2000	12.7	14.5	14.2	13.7	9.4	3.8	7.9	12.3	6.0	0.8	-4.6	-11.4
2001	-20.8	-8.5	-7.8	-12.7	-11.3	-13.6	-8.4	-14.3	-18.5	-26.4	-21.6	-21.9
<b>Current Average Employee Workweek</b>												
1995	-7.4	-0.5	-7.2	-11.4	-19.8	-16.2	-22.3	-5.1	-2.6	-5.3	-6.5	-11.0
1996	-9.3	-10.8	-13.5	2.6	4.7	1.6	5.5	-0.7	-0.1	-6.0	-4.7	1.8
1997	6.1	0.1	-0.2	-0.4	-2.7	-3.1	-1.3	-0.1	-3.0	-0.6	-2.0	1.5
1998	6.2	9.4	-0.3	-8.7	-1.0	4.7	-3.8	-2.6	-3.7	-0.9	-18.4	6.2
1999	-6.4	-5.9	7.1	8.6	1.7	6.1	-1.5	4.3	-3.3	5.7	4.9	0.2
2000	1.8	8.1	14.5	5.9	5.2	-4.5	4.3	0.0	-0.3	-9.9	-2.7	-14.7
2001	-23.7	-22.4	-14.2	-25.5	-17.2	-17.5	-18.5	-24.1	-17.7	-21.7	-14.4	-15.6
<b>Future General Activity</b>												
1995	16.6	8.7	-6.0	-1.1	14.8	15.5	23.4	28.2	27.4	31.7	29.3	7.3
1996	23.2	28.2	19.8	23.6	27.9	41.6	38.4	25.2	23.3	21.5	18.7	32.3
1997	26.1	27.7	23.2	23.5	15.2	18.7	14.8	16.9	25.3	28.5	30.0	27.2
1998	18.1	15.4	27.5	21.7	23.5	6.6	-4.9	5.6	3.6	2.7	10.8	17.5
1999	25.4	24.7	21.6	20.7	23.9	14.1	10.1	19.8	-4.7	11.7	22.1	27.3
2000	20.2	18.8	7.1	1.3	5.2	11.6	16.5	12.7	23.4	12.9	7.8	-2.9
2001	-13.0	6.6	20.4	26.3	30.7	55.3	35.0	37.3	48.2	49.8	45.3	46.7