



BUSINESS OUTLOOK SURVEY

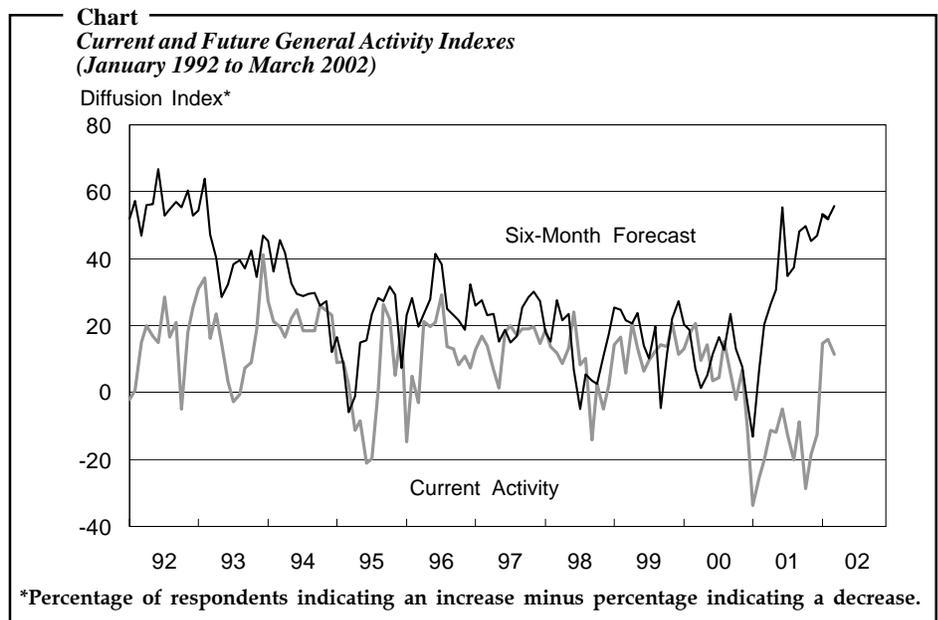
March 2002

For the third consecutive month, responses from the *Business Outlook Survey* indicate growth in the region's manufacturing sector. Indicators for general activity, new orders, and shipments suggest growth, although levels of the indicators were not as strong as in the previous month. Overall employment among firms is lower this month, although declines were smaller than in recent months. Manufacturers are optimistic that business will continue to improve over the next six months.

Third Consecutive Month of Growth

The diffusion index of current activity remained positive for the third consecutive month but declined slightly from 16.0 in February to 11.4 (see Chart). Following 13 months of negative readings, the three months of positive indicators represent growing evidence of a recovery in the region's manufacturing sector. More firms reported increases in activity (35 percent) than decreases (24 percent) this month, although 37 percent reported no change in activity.

Indicators for new orders and shipments also remained positive for the third consecutive month but, like the current activity index, declined from last month's readings. The new orders index declined from 13.7 in February to 7.3, and the shipments index declined from 16.6 to 7.7. Both unfilled orders and delivery times held nearly steady this month. The survey results show smaller declines in inventories this month. Although a slightly greater percentage of firms reported declines in inventories (26 percent) than increases (19 percent), the inventories index improved from -14.8 to -7.1, its high-



est reading in 13 months.

Demand for labor continues to be weak despite the improvement in activity, although there is some indication that declines are tapering off. The current employment index improved from -14.7 to -4.6, its highest reading in 16 months. The average workweek index, however, receded slightly from -2.9 in February to -9.3 this month.

Current Prices Are Steady

Over 87 percent of firms surveyed indicated no change in prices of their own manufactured goods, and the percentage that reported higher prices (7 percent) is about the same as those that reported lower prices (6 percent). The percentage of firms reporting a rise in input prices (9 percent) was higher than the percentage reporting a decrease (6 percent) for the first time in nine months. Nevertheless, 84 percent of the respon-

dents reported no change in the prices of inputs.

There was a notable change in expectations regarding future price increases this month, especially for purchased inputs. The future prices paid index rose from 23.0 in February to 38.3 in March, its highest reading in 16 months. The future prices received index rose from 15.8 to 19.4—its highest reading in 24 months.

Expectations Continue to Improve

Most of the survey's indicators for the next six months improved. The index of future general activity increased from 51.8 in February to 55.7 this month (see Chart). Nearly 69 percent of the firms surveyed expect an increase in activity over the next

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six months; only 13 percent expect a decrease. Indicators for future new orders and shipments showed similar improvement. Although delivery times are expected to remain near current levels, unfilled orders are expected to rise over the next six months. For the first time in 18 months, more firms expect a rise in inventories over the next six months than expect a decline. The future inventories index rose from -4.7 to 5.6.

Firms' expectations regarding employment improved somewhat in March. The future employment index rose from 12.2 in February to 19.9, and the future workweek index increased from 20.0 to 24.7. Although 56 percent of the manufacturing firms expect no change in employment over the next six months, the percentage expecting an increase in employment (29 percent) was greater than the percentage expecting a decrease (9 percent). Responses to a special question this month indicate that among the 77 percent of firms expecting to increase production over the next six months, about 56 percent

Special Questions (March 2002)

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

We do not expect to **increase production** in the next six months 22.9%
 We expect to **increase production** in the next six months 77.1%
Total 100.0%

For those expecting to **increase production** over the next six months, this will be accomplished by:

Hiring additional workers 43.8%
 Increasing work hours of current staff, without hiring additional workers 32.8%
 Increasing productivity of current staff, without hiring additional workers or increasing work hours 23.4%
Total 100.0%

will accomplish this by increasing the work hours of existing staff or increasing productivity (see *Special Questions*). The remaining 44 percent expect to increase employment.

Summary

Manufacturing activity in the region continues to improve. Survey responses indicate growth in general activity, new orders, and shipments. Although more

firms reported declines in employment than increases, the overall declines are not as large as in previous months. Declines in inventories were not as large this month, and firms' forecasts suggest an expansion of inventories in the near term. Firms are becoming more optimistic about the growth of new orders over the next six months, and many anticipate an expansion of production and employment.

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**Summary of Returns
March 2002**

	March vs. February				Six Months from Now vs. March			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	23.5	36.8	34.8	11.4	12.9	17.8	68.6	55.7
Company Business Indicators								
New Orders	25.0	41.9	32.3	7.3	12.9	20.8	66.0	53.0
Shipments	24.9	42.5	32.6	7.7	12.6	20.9	62.5	49.9
Unfilled Orders	18.1	64.4	15.9	-2.2	9.5	49.0	34.9	25.4
Delivery Times	9.2	79.2	10.0	0.8	7.3	74.2	10.7	3.4
Inventories	25.6	54.7	18.5	-7.1	22.8	45.7	28.4	5.6
Prices Paid	6.2	84.4	9.2	3.0	0.0	57.7	38.3	38.3
Prices Received	6.0	87.3	6.7	0.7	4.6	67.9	24.0	19.4
Number of Employees	16.4	71.7	11.8	-4.6	9.2	56.0	29.1	19.9
Average Employee Workweek	17.7	73.9	8.4	-9.3	11.1	47.5	35.8	24.7
Capital Expenditures	—	—	—	—	10.0	44.1	22.3	12.4

- 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 March 10, 2002.