



BUSINESS OUTLOOK SURVEY

November 2002

Activity in the region's manufacturing sector has improved modestly, according to firms surveyed for this month's *Business Outlook Survey*. Indexes for general activity, new orders, and shipments improved from their negative readings in the previous month. Although factory employment was mostly steady, average work hours declined again this month. Expectations for growth over the next six months continue to be optimistic.

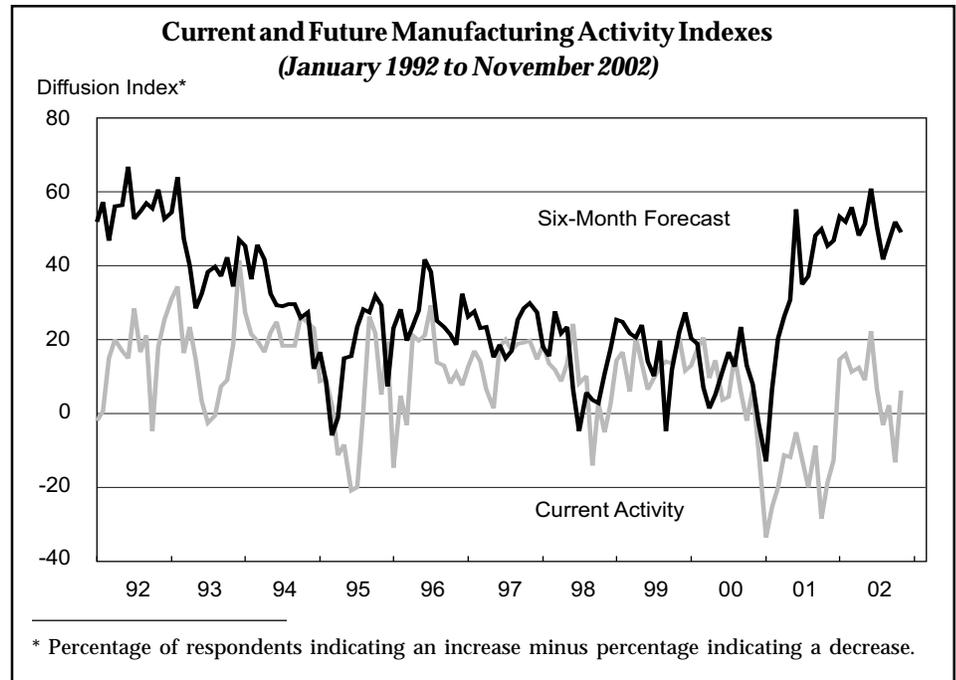
Current Indicators Bounce Back

The diffusion index of current activity increased from -13.1 in October to 6.1 this month. The index had been negative in two of the previous three months (see Chart). More firms reported increases in activity this month (27 percent) than reported decreases (21 percent), although 48 percent reported no change from the previous month. The current new orders index increased notably this month, from -1.3 in October to 11.0, with one-third of the firms reporting increases in new orders. The current shipments index also increased, but more modestly, from -3.1 in October to 1.5. The delivery times index remained negative but improved slightly, from -12.6 in October to -10.6. The unfilled orders index also remained negative but showed a notable improvement, from -19.5 to -3.9.

Overall employment held steady this month. Sixty-nine percent of the firms reported steady employment levels this month, and the same percentage of firms reported declines in employment as reported increases (15 percent). The current employment index increased from -5.1 in October to -0.2. However, the index of average hours worked fell again this month, decreasing from -5.5 to -9.0.

Goods Prices Fall

For the second consecutive month, more firms reported lower prices for their



final manufactured goods (17 percent) than reported increases (9 percent). The current prices received index fell from -7.5 in October to -8.6. Despite reporting lower prices of manufactured goods, many firms continued to report higher costs. The percentage of firms that reported paying higher input prices (19 percent) exceeded the percentage that reported paying lower prices (6 percent). The prices paid index fell slightly, however, from 14.3 to 13.0—its lowest reading in seven months. Still, almost three-quarters of the respondents reported steady input prices in November.

Manufacturing Outlook Remains Positive

Expectations for future manufacturing growth continue to be favorable. The index of future general activity declined only slightly, from 51.8 in October to 49.0 this month (see Chart). Fifty-six percent of the manufacturers surveyed expect increases in

business over the next six months, and only 7 percent expect deterioration in business. The future new orders index also declined slightly this month, from 46.3 to 42.4, while the future shipments index was mostly unchanged. Firms' expectations for future employment declined only modestly from the October survey: the future employment index declined from 17.9 to 16.7. Thirty-one percent of respondents see growth in employment over the next six months while 14 percent expect losses.

The index for future capital spending increased notably from 14.5 to 25.8 this month, suggesting firms' short-run capital spending plans improved from the previous survey. Given the lackluster capital spending that has marked this recovery period, firms' capital spending plans were the focus of several special questions this month (see *Special Questions*). With regard to capital expenditure budgets for 2003, the percentage of firms

Special Questions (November 2002)

Compared with this year, is your budget for capital expenditures in 2003 expected to be:

Higher	33%
About the Same	46%
Lower	21%

How is your overall capital spending budget for next year expected to change?

It will:

Decline more than 10 %	21%
Decline 5-10%	2%
Decline less than 5%	1%
Stay at current levels	39%
Increase more than 5%	7%
Increase 5-10 %	8%
Increase more than 10 %	22%

When are the majority of your capital expenditures expected to occur?

First half of 2003	38%
Second half of 2003	62%

Which of the following 2003 budget categories are expected to be higher or lower than the current year:

	Lower	Same	Higher
Noncomputer equipment	27%	41%	32%
Software	26%	57%	17%
Computers and related hardware	26%	57%	17%
Structures	27%	42%	31%
Other	19%	62%	19%

expecting to increase their budgets (33 percent) was higher than the percentage expecting to decrease (21 percent); 46 percent plan no change for next year. Sixty-two percent of the firms indicated that the majority of capital spending would occur in the second half of 2003; 38 percent indicated the majority would be in the first half. Significantly more firms indicated lower 2003 budgets for software and computer equipment (26 percent) than indicated higher budgets (17 percent).

Summary

Overall manufacturing conditions in the region increased modestly this month, following reported declines in two of the three previous months. Although most current indicators improved from their negative readings last month, employment conditions remain weak. Firms remain optimistic about growth in manufacturing activity over the next six months even though expectations dampened slightly in November. More firms expect higher capital spending budgets in the coming year than expect lower budgets. Most firms, however, expect the majority of that spending to come in the second half of next year rather than in the first half.

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Summary of Returns

November 2002

	November vs. October				Six Months from Now vs. November			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	21.1	47.9	27.3	6.1	7.1	28.6	56.0	49.0
Company Business Indicators								
New Orders	22.5	44.0	33.5	11.0	10.0	31.6	52.3	42.4
Shipments	24.2	47.9	25.7	1.5	6.5	32.4	55.9	49.4
Unfilled Orders	17.8	66.6	13.9	-3.9	9.3	57.4	30.1	20.8
Delivery Times	18.0	74.6	7.4	-10.6	12.4	66.8	13.5	1.1
Inventories	25.7	54.8	19.5	-6.1	21.2	54.9	17.3	-3.9
Prices Paid	6.1	74.7	19.1	13.0	5.7	71.4	16.5	10.8
Prices Received	17.4	73.8	8.8	-8.6	5.0	73.6	17.4	12.4
Number of Employees	15.0	68.5	14.8	-0.2	14.3	50.0	31.0	16.7
Average Employee Workweek	19.5	69.0	10.5	-9.0	9.0	61.0	22.3	13.4
Capital Expenditures	—	—	—	—	5.9	39.7	31.7	25.8

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 November 11, 2002.