



BUSINESS OUTLOOK SURVEY

December 2002

Growth in the region's manufacturing sector remains sluggish, according to firms surveyed for this month's *Business Outlook Survey*. Although indexes for general activity and new orders remained positive for the second consecutive month, slightly more firms reported declines in shipments than increases. Overall employment was reported lower again this month. Expectations for growth over the next six months continue to be optimistic, although firms lowered their outlook for future employment and capital spending.

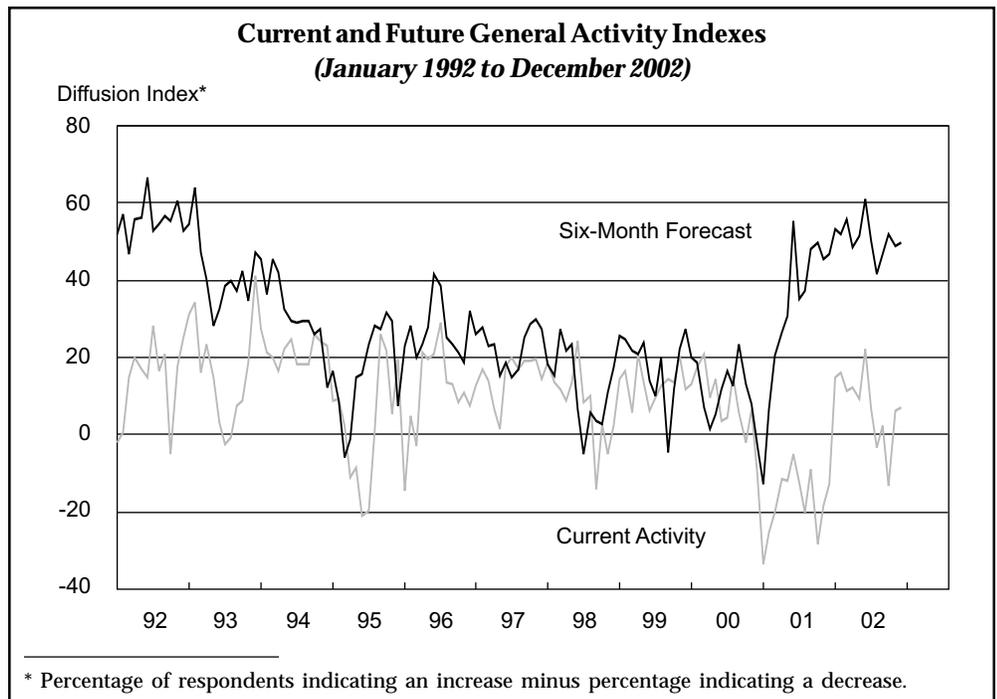
Manufacturing Improves Only Slightly

The diffusion index of current activity increased slightly from 6.1 in November to 7.2 this month. The index had been negative in two of the three months prior to November (see Chart). More firms reported increases in activity this month (28 percent) than reported decreases (21 percent), although over one-half of the firms reported no change from the previous month. Indexes for both new orders and shipments fell back somewhat from their November readings. The current new orders index decreased slightly from 11.0 in November to 9.3, but nearly a third of the firms continued to report increases in new orders. The current shipments index also declined, dropping from 1.5 to -3.5. The delivery times index remained negative but improved from -10.6 in November to -3.4 this month. The unfilled orders index also remained negative but improved marginally, increasing from -3.9 to -1.1. Inventories are notably higher: the current inventories index rose from -6.1 in November to 13.9.

Overall employment in the manufacturing sector fell this month. Sixty-eight percent of the firms reported steady employment levels, but the percentage that reported declines in employment (19 percent) was greater than the percentage that reported increases (13 percent). The current employment index decreased from -0.2 in November to -5.7. The index of average hours worked remained negative but improved from -9.0 to -3.0.

Prices of Manufactured Goods Are Steady

Firms participating in the survey held prices of their goods virtually steady this month,



despite higher costs noted by some of the firms. Nearly 79 percent of the firms reported no change in prices for their final manufactured goods, and the percentage that reported higher prices was equal to the percentage reporting lower prices (10 percent). Despite these relatively steady prices, the current prices received index increased from -8.6 in November to 0.1 this month. Many firms continued to report higher costs. The percentage of firms that reported paying higher input prices (22 percent) exceeded the percentage that reported

paying lower prices (7 percent). The prices paid index rose slightly, from 13.0 in November to 15.1, but the previous month's index was its lowest reading in seven months. Moreover, over 70 percent of respondents reported steady input prices in December. There was a notable rise in firms' expectations about price increases over the next six months. The future prices paid index jumped from 10.8 in November to 23.1 this month, and the future prices received index increased from 12.4 in November to 22.5.

The 2003 Business Outlook Survey release schedule is now available at:
<http://www.phil.frb.org/econ/bos/bosschedule.html>.

The survey's annual historical revisions, which incorporate new seasonal adjustment factors, will be released on January 13, 2003, at noon E.T. The information will be made available at:
<http://www.phil.frb.org/econ/bos/boshistory.html>.

To receive e-mail notification about release of this publication see the "E-Mail Notification" link on our home page at <http://www.phil.frb.org>.

Special Questions (December 2002)

Which of the following statements best describes your current employment plans for 2003:

We are planning **additions** to our workforce next year. 46%
 We are planning **no change** to our workforce next year. 40%
 We are planning **reductions** in our workforce next year. 14%

If planning additions to the workforce in 2003, additions are expected to occur in the:

First quarter 30%
 Second quarter 63%
 Third quarter 35%
 Fourth quarter 23%

Note: Numbers do not add to 100 because firms could indicate more than one quarter in which an increase would occur.

future capital expenditures were also less optimistic this month: the future index for capital spending declined from 25.8 in November to 9.1.

In a special question this month firms were asked about their overall employment plans for next year (see Special Questions). Forty-six percent of the firms expect to make additions to their workforces sometime next year; 14 percent expect to make reductions. Of the 46 percent planning increases next year, 63 percent indicated that they would add employees in the second quarter, more than twice as many as those indicating an increase in the first quarter (30 percent). At this point, hiring plans for the second half of the year are somewhat weaker.

Summary

Overall manufacturing conditions in the region increased modestly this month, although not all indicators improved. While manufacturing activity appears to be recovering, slightly more firms reported a decline in shipments this month than reported a rise. Current employment also continues to decline, and the firms' six-month outlook for both employment and capital spending was less favorable. Firms remain optimistic about growth in manufacturing activity over the next six months, however. Almost half of the firms expect to increase employment next year, although most of those firms report that they will wait at least until the second quarter of the year to add workers.

Short-Run Employment Forecast Is Less Optimistic

Expectations for future manufacturing growth continue to be favorable, although firms are less optimistic this month about employment and capital spending. The index of future general activity improved marginally, from 49.0 in November to 49.7 this month (see Chart). Nearly 60 percent of the manufacturers surveyed expect improvement in business conditions; only 10 percent expect deterioration. The future new orders index was virtually unchanged from the previous month while the future shipments index decreased from 49.4 to

45.6. Firms expect unfilled orders to increase over the next six months while they expect delivery times and inventories to remain near current levels.

Firms' expectations for future employment declined notably from the November survey: the future employment index declined from 16.7 to 9.0. Twenty-seven percent of respondents anticipate growth in employment over the next six months while 18 percent expect losses. More firms expect higher average work hours than in the previous month: the future average workweek index increased from 13.4 in November to 25.1. Firms' plans for

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Summary of Returns December 2002

	December vs. November				Six Months from Now vs. December			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	20.5	50.2	27.7	7.2	10.0	28.5	59.6	49.7
Company Business Indicators								
New Orders	22.9	39.8	32.2	9.3	13.0	23.8	55.3	42.3
Shipments	29.8	43.8	26.3	-3.5	12.5	23.8	58.1	45.6
Unfilled Orders	16.3	67.5	15.2	-1.1	10.8	56.2	27.0	16.2
Delivery Times	12.7	76.7	9.2	-3.4	13.1	65.4	16.3	3.2
Inventories	12.8	58.9	26.7	13.9	28.1	37.8	28.5	0.4
Prices Paid	6.9	70.1	22.0	15.1	5.6	61.3	28.7	23.1
Prices Received	10.3	78.7	10.3	0.1	0.0	71.1	22.5	22.5
Number of Employees	18.8	68.0	13.1	-5.7	18.0	51.2	26.9	9.0
Average Employee Workweek	19.1	61.2	16.2	-3.0	8.5	49.9	33.5	25.1
Capital Expenditures	—	—	—	—	13.3	42.7	22.4	9.1

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 December 10, 2002.