



BUSINESS OUTLOOK

SURVEY

July 2002

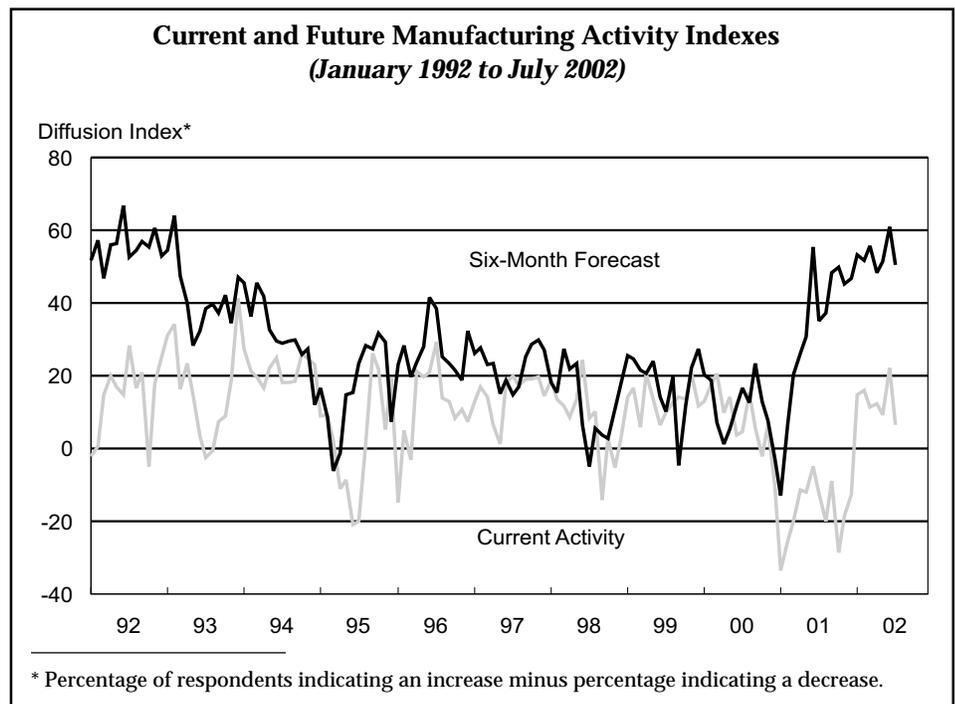
Results from July's *Business Outlook Survey* reflect a slower pace of activity in the region's manufacturing sector. Although most current indicators fell from their readings in June, the major indicators of output remain positive for the seventh consecutive month. The employment index, however, was negative this month. Consistent with the slower pace of activity, expectations for growth diminished in July, although manufacturing executives continue to be optimistic about conditions for the next six months.

Indexes Fall Notably This Month

The diffusion index for current general activity decreased markedly from 22.2 in June to 6.6 this month. Nearly 50 percent of the firms reported no change in activity, and the percentage reporting increases (29 percent) was only slightly higher than the percentage reporting decreases (22 percent). Although the index has now remained positive for seven consecutive months, this is its lowest reading this year (see chart).

Other broad indicators also fell. Although still positive, the new orders index declined from 20.1 in June to 6.6, and the shipments index fell from 14.7 to 4.6. Firms also reported overall declines in unfilled orders and shortened delivery times. The current unfilled orders index fell from 12.8 in June to -6.2; the delivery times index fell from 1.6 to -13.3. Inventories were reported lower again this month—the current inventories index fell from -7.9 to -14.1.

The demand for labor continues to be weak, and employment losses increased somewhat this month. The current employment index decreased from -2.0 to



-6.8. Although 69 percent of firms are holding employment steady at their plants, the percentage reporting declines (18 percent) is greater than the percentage reporting increases (11 percent). The average workweek index also fell slightly, from -0.9 in June to -6.9.

Prices of Manufactured Goods Are Steady

Overall, 85 percent of firms surveyed indicated no change in prices of their own manufacturing goods, and the percentage that reported higher prices (8 percent) is about the same as those reporting lower prices (7 percent). The prices received index declined from 8.7 in June to 1.0 in

July. Despite steady prices of the manufacturers' own goods, a significant share of the firms reported a rise in input prices. The percentage of firms reporting a rise in input prices (23 percent) was higher than the percentage reporting a decrease (5 percent) for the fifth consecutive month. The prices paid diffusion index moderated, however, from 22.9 in June to 17.9 this month.

Expectations for Future Growth Moderate

Expectations for future manufacturing growth can still be characterized as optimistic, although manufacturers are somewhat less optimistic this month than

Special Questions (July 2002)

What increases or decreases in benefit costs do you anticipate in 2003?

	DECREASE				NO CHANGE	INCREASE			
	>15%	10-15%	5-10%	0-5%		0-5%	5-10%	10-15%	>15%
Total Benefit Costs	0%	1%	2%	2%	5%	12%	43%	27%	7%
Health care	0%	1%	2%	2%	5%	6%	24%	33%	27%
Non-health care	0%	0%	1%	1%	17%	40%	30%	9%	2%

in previous surveys. The index of future general activity decreased from 60.9 to 50.4 but remains at a relatively high level (see chart). Over 56 percent of the manufacturers expect increases in activity over the next six months; only 6 percent expect decreases. Indicators for expected new orders and shipments did not decline, however; the future new orders index increased from 47.7 in June to 54.8, and the future shipments index was essentially unchanged. On balance, firms expect unfilled orders to increase over current levels and delivery times to remain steady. More firms expect a decline in inventories over the next six months (31 percent) than expect an increase (22 percent).

Expectations regarding future employment improved: The future employment index increased from 12.9 in June to 21.1 this month. Nearly 31 percent of the firms surveyed anticipate adding workers over the next six months; 10 percent expect to reduce their workforce. Firms' expectations for capital expenditures over the next six months improved somewhat. The future capital expenditures index increased from 20.2 to 24.4, its highest reading in seven months.

In response to special questions this month, the highest percentage of firms (43 percent) expect total benefit costs to rise in the 5 to 10 percent range in 2003, and 34 percent of the respondents expect

them to rise at a faster pace (see Special Questions). With regard to health benefit costs, however, 60 percent of the firms polled expect those costs to rise more than 10 percent next year.

Summary

The survey's indicators of regional manufacturing activity suggest a slower pace of growth this month. Most of the survey's broad indicators fell notably from their readings in June. Nevertheless, firms remain optimistic about growth in the manufacturing sector over the next six months, although expectations dampened somewhat this month.

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Summary of Returns July 2002

	July vs. June				Six Months from Now vs. July			
	Decrease	No Change	Increase	Diffusion Index	Decrease	No Change	Increase	Diffusion Index
What is your evaluation of the level of general business activity?	21.8	49.7	28.5	6.6	6.0	29.7	56.4	50.4
Company Business Indicators								
New Orders	22.7	48.1	29.3	6.6	0.7	36.9	55.5	54.8
Shipments	25.7	44.1	30.2	4.6	7.8	31.7	52.2	44.4
Unfilled Orders	19.8	64.0	13.6	-6.2	10.6	59.1	26.9	16.3
Delivery Times	21.2	68.8	7.9	-13.3	10.8	75.3	13.0	2.2
Inventories	32.1	48.4	18.0	-14.1	30.7	38.9	21.7	-9.0
Prices Paid	5.4	71.3	23.3	17.9	6.9	48.4	39.8	32.9
Prices Received	6.7	85.0	7.7	1.0	3.0	62.4	29.2	26.1
Number of Employees	17.7	69.2	10.9	-6.8	9.7	56.5	30.8	21.1
Average Employee Workweek	19.4	67.2	12.5	-6.9	3.4	69.7	26.9	23.4
Capital Expenditures	—	—	—	—	8.6	30.5	33.0	24.4

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 indicating an increase minus the percentage indicating a decrease.
- (4) Survey results reflect data received through July 12, 2002.