



BUSINESS OUTLOOK SURVEY

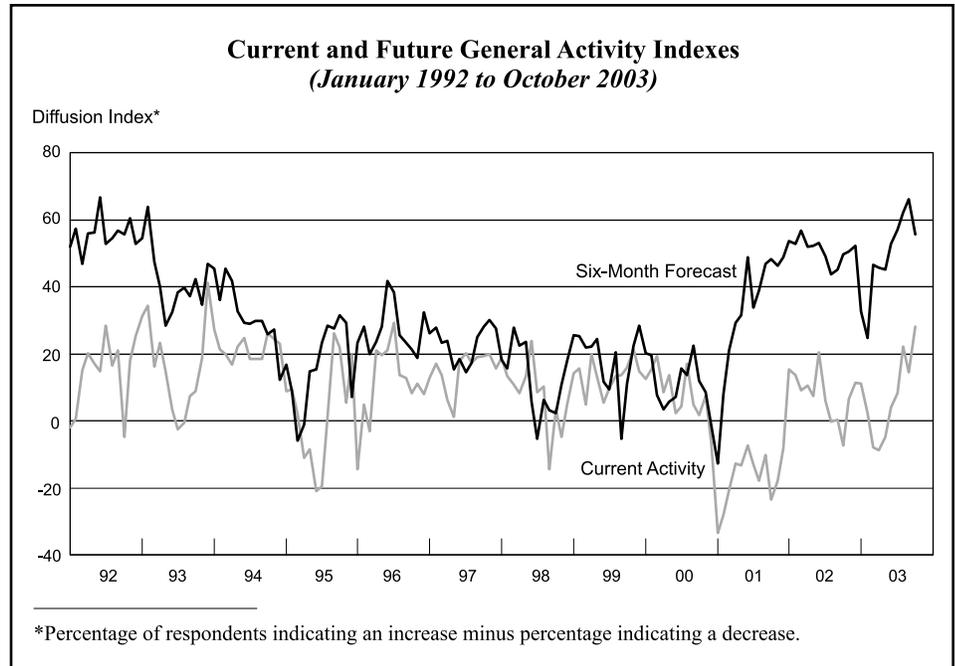
October 2003

Activity in the region's manufacturing sector improved notably this month, according to firms surveyed for the Philadelphia Fed's Business Outlook Survey. Most indicators pointed to improvement, with noteworthy increases recorded in the indexes for new orders, shipments, and employment. Expectations for growth continue to be optimistic, and an increasing share of firms anticipate expanding employment over the next six months.

Current Indicators Show Marked Improvement

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, was positive for the fifth consecutive month and increased significantly from 14.6 in September to 28.0 this month (see Chart). The current new orders index also showed marked improvement, increasing nearly 10 points to 29.0, the highest reading of the index in eight years. The current shipments index also bounded higher, increasing from 13.2 in September to 28.8, its highest reading since November 1999. Survey indicators suggest delivery times and unfilled orders are edging higher—both diffusion indexes increased from their September readings and were positive this month. The current inventories index fell five points and moved below zero for the first time in five months.

Overall improvement in manufacturing was also evident in firms' responses regarding employment. The current employment index increased 10 points to 5.5, its highest reading in three years. Although 65 percent of the firms reported no change in employment this month, the percentage reporting an increase in employment (21 percent) was higher than the percentage reporting lower employment (15 percent). Firms also reported continued improvement in the average workweek in October. The



workweek diffusion index increased 10 points to 13.5 and has now remained positive for four consecutive months.

Higher Input Prices Reported

Firms reported higher input prices again this month. The index for current prices paid remained essentially unchanged after rising in August and September. Twenty-five percent of the manufacturers reported paying higher prices for inputs this month; only 2 percent reported paying lower prices. Despite higher costs, firms reported only slightly higher prices of their own manufactured goods. The prices received index increased marginally, to 5.4, but is now at its highest reading in six months. Although the prices received index has drifted slightly higher in recent months, this is ameliorated by the fact that a high

percentage of firms (72 percent in October) have been reporting no change in prices of their own goods.

Employment Forecast Improves

Expectations for future manufacturing growth remain optimistic, although some future indicators fell from their high readings in September. After reaching its highest reading since June 1992 last month, the diffusion index for future manufacturing activity fell 11 points to 55.5 (see Chart). The future new orders and future shipments indexes also fell, but they remain at very high levels. Firms expect unfilled orders to increase over the next six months but delivery times to stay near their current levels. More firms expect inventories to increase over the next six months (25 percent) than expect them to decrease (17 percent).

Special Questions (October 2003)

1. Did you experience a decline in production at your plant in the 2001 recession?

Yes	72.5 %	No	27.5 %
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2. If yes, has production at your plant returned to its pre-2001 levels?

Yes	14.3%	No	85.7%
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3. If no to question (2), when do you expect production to return to pre-2001 levels?

2003:IV	1.6%
2004:I	1.6%
2004:II.....	25.0%
2004:III	21.9%
2004:IV	6.2%
<i>Not in the foreseeable future because of:</i>	
Loss of market share.....	7.8%
Long-term decline in industry	23.4%
Other	12.5%
Total	100%

manufacturing firms said they experienced declines in production during the 2001 recession. Among those that experienced declines, only 14 percent said that production had already returned to pre-2001 levels. Over half of the firms that experienced declines expect that production will not return to the pre-recession levels until after the first quarter of 2004. Moreover, a large percentage (44 percent) do not expect production to return to those pre-recession levels in the foreseeable future, for reasons involving competitiveness or long-term declines in their industry.

Summary

The region's manufacturing sector showed marked improvement in October. Indexes for new orders and shipments have risen significantly over the past two months, suggesting that the pace of recovery is picking up. Employment is also on the rise, as suggested by increases in both average workweek and employment indicators. In general, manufacturers continued to be optimistic, and firms provided a more optimistic outlook for employment growth this month.

The outlook for employment improved notably in October. The future employment index increased for the second consecutive month, rising almost 13 points. Nearly 41 percent of the manufacturers indicated they would add workers over the next six

months; only 7 percent indicated they would make cuts.

In special questions this month, firms were asked about the impact of the recent recession on production levels (see Special Questions). Seventy-three percent of the

BUSINESS OUTLOOK SURVEY Summary of Returns October 2003

	Previous Diffusion Index	October vs. September			Diffusion Index	Previous Diffusion Index	Six Months from Now vs. October			Diffusion Index
		Increase	No Change	Decrease			Increase	No Change	Decrease	
What is your evaluation of the level of general business activity?	14.6	41.4	45.2	13.4	28.0	66.2	61.8	29.4	6.3	55.5
Company Business Indicators										
New Orders	19.3	41.6	42.2	12.6	29.0	66.6	59.1	28.6	8.3	50.8
Shipments	13.2	40.0	39.7	11.2	28.8	65.3	57.2	28.8	7.2	50.0
Unfilled Orders	6.5	22.2	63.3	14.5	7.7	26.2	28.0	60.4	5.6	22.4
Delivery Times	-2.1	12.2	77.9	9.9	2.3	11.6	10.1	77.5	8.8	1.3
Inventories	2.8	16.9	61.5	19.4	-2.5	0.9	25.1	51.4	17.0	8.1
Prices Paid	22.5	24.7	72.4	2.4	22.3	26.1	34.1	57.1	4.3	29.8
Prices Received	4.8	16.5	72.3	11.1	5.4	10.0	17.3	72.4	5.9	11.3
Number of Employees	-4.7	20.5	64.5	15.0	5.5	20.5	40.5	47.1	7.2	33.3
Average Employee Workweek	3.5	23.4	64.7	9.9	13.5	21.3	21.8	60.4	10.6	11.1
Capital Expenditures	—	—	—	—	—	9.2	21.6	43.1	10.6	11.0

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 October 10, 2003.