



# BUSINESS OUTLOOK SURVEY

December 2003

Activity in the region's manufacturing sector continued to expand, according to firms surveyed for this month's *Business Outlook Survey*. Most indicators pointed to continued expansion, with noteworthy increases recorded in the indexes for new orders, shipments, and employment. Firms reported an increase in input prices this month but no appreciable pressure on prices for their own manufactured goods. Expectations for growth over the next six months remained optimistic, although some indicators fell from their recent high readings.

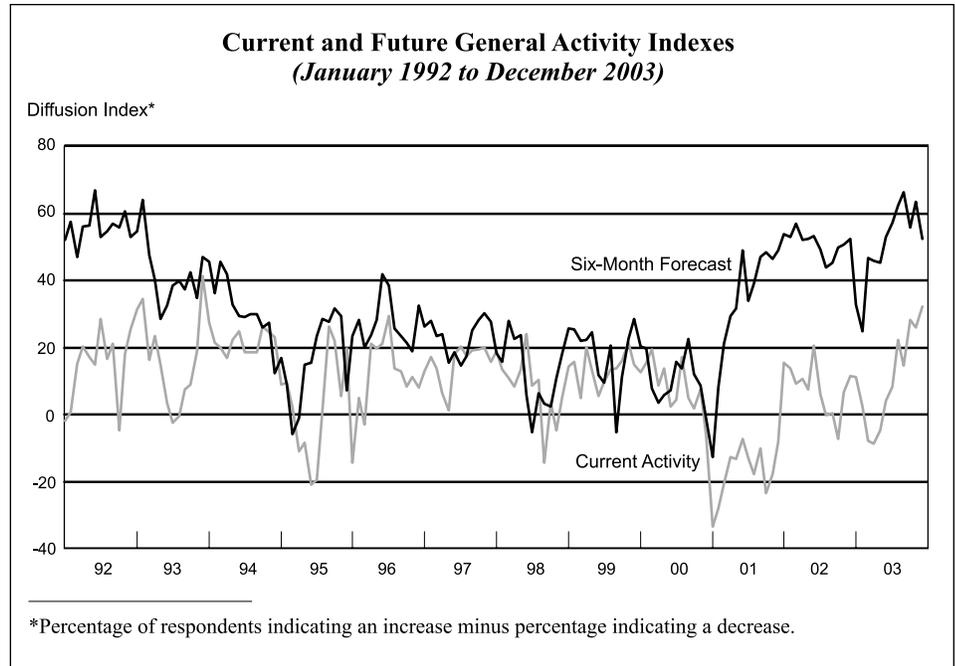
## Conditions Continue to Improve

The survey's broadest measure of manufacturing conditions, the diffusion index for current activity, increased from 25.9 in November to 32.1 this month. This marked the seventh consecutive month the index has been positive (see Chart). Both the new orders and the shipments indexes showed substantial improvement this month. The new orders index rose 21 points, to 41.8, its highest reading in 23 years. The current shipments index also jumped 14 points, to 41.1. Firms reported higher unfilled orders this month and essentially steady delivery times. The current inventories index was negative for the third consecutive month.

There was notable improvement in the manufacturing employment index. It increased appreciably, from 3.3 in November to 21.9 this month. Twenty-seven percent of the firms reported increases in employment, and only 5 percent reported declines. Firms also reported that the average workweek expanded this month, with over one-fifth of the firms reporting a rise in work hours. The current workweek index rose from -1.0 to 18.4.

## Rise in Input Costs More Widespread This Month

Firms reported higher input prices again this month. The index for current



prices paid increased from 24.9 to 31.4. The index, which increased for the second consecutive month, has been drifting higher since mid-year. Thirty-five percent of the firms reported paying higher prices for inputs this month, compared with 29 percent last month. Despite higher costs, firms reported little upward pressure on prices for their own manufactured goods. The percentage of firms reporting price increases for their own products (16 percent) exceeds the percentage reporting price decreases (11 percent). Expectations for future price increases have also moved up in recent months. The future prices paid index has increased 13 points in the past

two months, and the future prices received index has increased 16 points during the same period.

## Six-Month Indicators Still Reflect Optimism

Overall expectations for the next six months remain optimistic, although most future indicators are lower this month than last month. While the diffusion index for future manufacturing activity decreased from 63.4 to 52.3, it remains at a relatively high level (see Chart). The future new orders index fell 8 points, and the future shipments index fell 5 points. Firms expect unfilled orders to increase over the

The survey's annual historical revisions, which incorporate new seasonal adjustment factors, will be released on January 8, 2004, at noon E.T. The information will be made available at: <http://www.phil.frb.org/econ/bos/boshistory.html>.

## Special Questions (December 2003)

### How much do you expect productivity (output/worker) to increase at your establishment in 2004?

Expected Productivity Growth	Percentage of Respondents
0% .....	5.6%
1% .....	5.6%
2% .....	27.8%
3% .....	29.1%
4% .....	9.7%
5% .....	12.5%
6% or higher .....	9.7%
Total.....	100%

#### This increase will mostly result from\*:

Better use of technology, plant, and equipment already in place .....	83.6%
Introduction of new technology .....	20.9%
Other .....	10.5%

\* Percentage exceeds 100% because firms chose more than one category.

next six months and delivery times to stay near their current level. More firms expect inventories to rise over the next six months (28 percent) than expect them to decrease (19 percent).

Firms' expectations for future em-

ployment have shown some moderation in the past several months. Although the percentage of firms expecting to increase employment over the next six months (27 percent) exceeds the percentage expecting to decrease employment (11 percent), the

diffusion index for future employment declined 5 points. The future workweek index increased, however, almost 11 points. The diffusion index for future capital spending, however, showed a modest improvement: It increased 6 points.

In response to special questions this month, firms indicated what they were expecting in terms of growth in productivity in 2004 (see Special Questions). About 57 percent indicated that they expected productivity to grow between 2 and 3 percent next year, although 32 percent of the manufacturers indicated that the growth rate would be higher. Eighty-four percent of the firms indicated that the expected increase would result from better use of technology, plant, and equipment already in place.

#### Summary

Current indicators this month suggest that the pace of growth in the region's manufacturing sector continues to improve. Indicators for new orders, shipments, and employment rose appreciably. Although firms reported higher prices for inputs, prices of manufactured goods have not shown the same upward pressure. In general, manufacturing executives' outlook for future growth continued to be optimistic.

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### Summary of Returns December 2003

	Previous Diffusion Index	December vs. November				Six Months from Now vs. December				
		Increase	No Change	Decrease	Diffusion Index	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	25.9	39.5	50.3	7.4	32.1	63.4	59.9	25.4	7.6	52.3
Company Business Indicators										
New Orders	20.8	48.9	38.5	7.0	41.8	60.2	59.3	24.3	7.5	51.8
Shipments	26.8	44.4	50.0	3.3	41.1	58.4	61.2	22.4	7.6	53.6
Unfilled Orders	9.0	21.3	73.3	3.8	17.5	22.1	28.4	59.6	3.1	25.3
Delivery Times	-0.6	8.6	83.2	6.9	1.7	14.8	8.1	77.1	6.1	1.9
Inventories	-11.6	11.6	65.7	20.3	-8.7	8.4	28.2	41.9	19.2	9.1
Prices Paid	24.9	35.0	61.1	3.6	31.4	30.4	44.8	45.7	2.5	42.3
Prices Received	3.4	16.4	69.4	11.0	5.5	25.4	27.4	62.0	0.5	26.8
Number of Employees	3.3	27.0	67.8	5.1	21.9	21.6	27.4	55.4	10.7	16.7
Average Employee Workweek	-1.0	20.5	75.4	2.1	18.4	16.2	31.2	55.8	4.2	27.0
Capital Expenditures	—	—	—	—	—	17.6	27.9	41.3	4.8	23.1

#### 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 12, 2003.