



BUSINESS OUTLOOK SURVEY

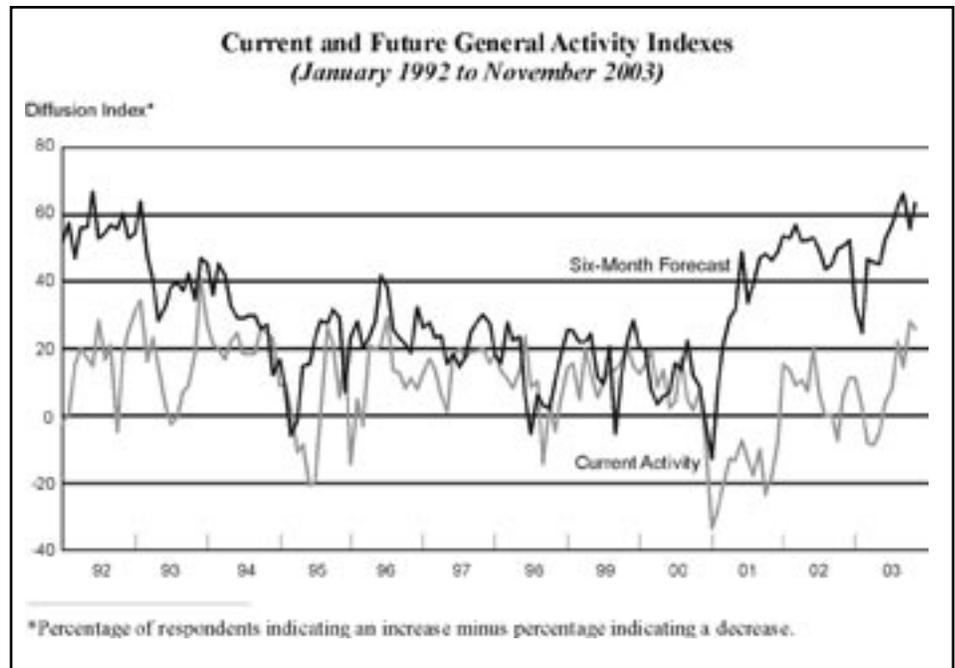
November 2003

Activity in the region's manufacturing sector continues to expand, according to firms surveyed for this month's *Business Outlook Survey*. Although indicators for general activity, new orders, and shipments fell from their October readings, they remain at relatively high levels. Manufacturing executives' outlook for growth over the next six months improved again in November, and many future indicators remain near their highest readings since 1992.

Manufacturers Report Growth

The survey's broadest measure of manufacturing conditions, the diffusion index for current activity, declined slightly from 28.0 in October to 25.9 and has now been positive for six consecutive months (see Chart). Although some current indicators fell this month, they continue to reflect solid growth in the region's manufacturing sector. The current new orders index, which reached an eight-year high in October, fell eight points, and the shipments index fell two points from its reading last month. Both indicators have remained positive for five consecutive months. Firms reported higher unfilled orders this month and essentially steady delivery times. The current inventories index remained negative for the second consecutive month, falling nine points to its lowest reading in nine months.

There was little appreciable improvement in manufacturing employment in November. Employment indexes fell from their readings in October but still suggest that labor market conditions have stabilized in the past two months. The percentage of firms reporting increases in employment (18 percent) was greater than the percentage reporting decreases (14 percent). The diffusion index of current employment was positive for the second consecutive month, although it declined slightly. The average workweek was mostly steady this month, after increasing in October.



Manufactured Goods Prices Are Near Steady

Firms reported higher input prices again this month. The index for current prices paid increased modestly, from 22.3 in October to 24.9 in November. Nearly 29 percent of the firms reported paying higher prices for inputs this month; only 4 percent reported paying lower prices. Despite higher costs, firms reported that prices for their own manufactured goods remained nearly steady. The percentage of firms reporting increases (14 percent) was nearly matched by the percentage reporting decreases (11 percent). The current prices received index fell two points this month.

Outlook Remains Optimistic

Expectations for future manufacturing growth improved this month. The diffusion index for future manufacturing activ-

ity increased from 55.5 to 63.4 in November, close to its 10-year high in September (see Chart). The future new orders index and shipments index showed improvement this month. Firms expect unfilled orders to increase over the next six months and delivery times to be longer. More firms expect inventories to increase over the next six months (24 percent) than expect them to decrease (15 percent).

Firms' expectations for future employment growth showed some improvement last month, but the future employment index fell from a high reading of 33.3 in October to 21.6 this month. Thirty percent of the firms indicated they expect to increase employment over the next six months while only 8 percent indicated they would decrease employment.

The outlook for capital spending improved this month. The future capital spend-

Special Questions (November 2003)

In the past three years have you lost or gained any *domestic* customers to foreign competition?

Lost 54.5% Gained 2.3% No Change 43.2%

In the past three years have you lost or gained any *foreign* customers to foreign competition?

Lost 25.6% Gained 11.6% No Change 62.8%

Have you outsourced or moved any of your activities (e.g. customer support) or production abroad?

Yes 21.6% No 78.4%

If yes, how has this outsourcing changed in the last three years?

Increased 70.8% Decreased 0.0% No Change 29.2%

Has the percentage of your inputs from foreign firms changed in the last three years?

Increased 37.9% Decreased 2.3% No Change 59.8%

last three years. A smaller percentage (26 percent) indicated they had lost foreign customers to foreign competitors over the last three years, and 12 percent indicated they had gained foreign customers. Twenty-two percent of the manufacturers indicated they have outsourced activities and production abroad, and 71 percent of those firms said the level of outsourcing had increased over the last three years. Finally, 38 percent of the firms reported that their share of inputs from foreign sources had increased over the last three years.

Summary

Although some current indicators fell modestly from their high levels in October, they continue to suggest that the region's manufacturing sector is expanding. Firms reported that current activity, new orders, and shipments continued to increase. Respondents reported that employment was steady this month. In general, manufacturing executives' outlook continued to be optimistic. Moreover, the outlook for both employment and capital spending has shown signs of recent improvement.

ing index increased almost eight points to its highest reading in seven months.

This month, firms were asked special questions about recent trends in foreign

competition and outsourcing of their own business (see Special Questions). Over half of the firms indicated they had lost domestic customers to foreign competition over the

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Summary of Returns November 2003

	Previous Diffusion Index	November vs. October			Diffusion Index	Six Months from Now vs. November				
		Increase	No Change	Decrease		Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	28.0	33.1	57.3	7.2	25.9	55.5	68.4	17.4	5.0	63.4
Company Business Indicators										
New Orders	29.0	36.9	46.9	16.1	20.8	50.8	69.0	15.9	8.8	60.2
Shipments	28.8	37.9	51.0	11.1	26.8	50.0	68.5	14.2	10.1	58.4
Unfilled Orders	7.7	16.7	69.1	7.7	9.0	22.4	30.7	55.7	8.7	22.1
Delivery Times	2.3	9.1	81.2	9.7	-0.6	1.3	24.2	61.2	9.4	14.8
Inventories	-2.5	9.9	68.5	21.5	-11.6	8.1	23.7	53.9	15.4	8.4
Prices Paid	22.3	28.9	66.7	4.0	24.9	29.8	36.2	53.2	5.8	30.4
Prices Received	5.4	14.4	74.2	11.0	3.4	11.3	32.2	56.8	6.8	25.4
Number of Employees	5.5	17.5	68.4	14.1	3.3	33.3	29.9	57.2	8.3	21.6
Average Employee Workweek	13.5	10.7	72.5	11.7	-1.0	11.1	27.1	54.4	10.9	16.2
Capital Expenditures	—	—	—	—	—	11.0	21.4	50.0	3.8	17.6

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 14, 2003.