



NEW YORK CITY ECONOMIC FOCUS:
THE STORM CLOUDS GATHER

Although New York City's economy continued to weaken slightly in late August and early September, the implications of the trends of the past few months have now been totally eclipsed by the horrific human toll, and economic fallout, from the crime committed at the *World Trade Center (WTC)* on September 11. But while the results of this month's survey of the *National Association of Purchasing Management-New York (NAPM-NY)* were assembled prior to September 11, they may be more relevant than their timing suggests, since they provide a snapshot of industry conditions prior to the WTC attack, and therefore some measure of the potential preparedness of these industries to withstand the economic chill likely to occur in the months ahead. For while there is almost uniform agreement that the tri-state business pace will deteriorate further over the balance of this year, the deterioration will not be uniform—it never is, and the industries that were fading prior to the *Trade Center* tragedy will probably weaken at a quickening clip while those that have been sidestepping the brunt of the economic torpor should fare somewhat better.

To be sure, the economic clouds have been gathering for months, darkening what had been relatively clear business skies. They multiplied ominously this summer: Buffeted by dot-com layoffs, financial industry restructurings and garment industry downsizing, private industry job growth had virtually ceased in recent months; the hotel occupancy rate was easing, as demand softened and room supply burgeoned; office vacancy rates crept higher; and business optimism dived lower. These unfavorable trends did not go unnoticed by local purchasing managers, and they extracted a toll from the *Business Conditions Index (BCI)* of the *NAPM-NY*—the principal gauge of the current health of the economy—which declined for the third month in a row in September. As shown in the table opposite, the *BCI* stood at 267.3 in September (1996=100), down 0.9 percent compared with the August reading. While the monthly dip was relatively subdued, it was a decline nonetheless and stands in stark contrast to the 1.6 percent increase in the *BCI* in September 2000; since peaking last autumn, the *BCI* has subsequently declined by 4-1/2 percent.

Because the *NAPM-NY* business conditions survey is one of the most reliable, and timely, indicators of the business pace, and since it tends to mirror employment trends over time, the decline of the *BCI* over the past three months is clearly signaling that the expansion of the Big Apple economy ceased this summer, as did private employment creation. The current conditions diffusion index—reflective of the industry breadth of the business expansion—provides some indication of the pre-September 11 strength of several segments of the local industry mix and, by extension, some hints of their future resiliency; in early September, the non-manufacturing, service-producing industries were the weakest thread in the Big Apple's business fabric. The non-manufacturing segment of the diffusion index tumbled to its second lowest point of the year, as financial services, tourism and temporary staffing agencies, among others, were all buffeted by tougher economic times. The manufacturing segment of the diffusion index was actually strengthening in late August and early September, a trend that held out hope that factory fatigue—both locally and nationally—might be lessening; all bets are now off, however.

Commenting on these findings, survey director and senior regional economist at *JPMorgan*, Marc M. Goloven, stated that "...although the New York City economy was weakening prior to September 11, its mettle will now be put to a Herculean test as the Big Apple struggles to cope with the punishing impact—both physically and psychologically—of the *World Trade Center* tragedy. But while the local economy will experience a painful interlude in coming months, the longer-term effects of Downtown reconstruction and renewal are likely to be much more benign, producing an economy that is bigger, stronger and more diversified than ever. This has typically been the legacy of disaster restoration in other metro areas, and it won't be any different in this city—except that the numbers will be bigger and the results will be better." Finally, the purchasing managers were asked, prior to the *Trade Center* disaster, what they thought would be the most influential factor affecting next year's economic performance. While energy prices and availability topped the list, many respondents thought it would be something else—for most, the "something else" is consumer and business confidence. In the wake of what happened earlier this month, truer words have rarely been spoken.

NY Regional Business Conditions Indexes

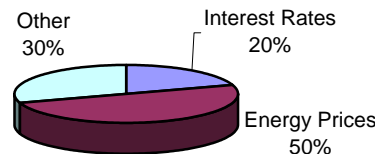
(Seasonally Adjusted, Except Where Noted)

	NY-BCI	Current*	Mfg.	Non-Mfg.	Outlook**
June	196.0	70.1	69.7	70.1	71.4
July	202.0	62.0	62.1	62.0	73.1
August	208.8	63.7	71.4	62.8	70.4
September	214.9	62.1	49.4	63.5	75.0
October	219.9	60.1	59.5	60.2	66.1
November	226.5	63.3	69.5	62.6	71.2
December	231.9	60.7	78.4	58.7	71.2
January'00	238.4	63.1	100.0	59.0	69.1
February	243.1	59.5	57.3	59.7	69.5
March	251.9	67.4	55.6	68.7	66.7
April	254.8	55.8	56.6	55.7	60.9
May	253.7	47.8	59.8	46.5	77.5
June	254.8	52.3	46.9	52.9	66.7
July	259.3	59.0	68.3	58.0	71.4
August	267.5	66.2	100.0	62.5	66.7
September	271.7	58.4	75.2	56.5	67.4
October	277.7	62.2	76.9	60.5	60.5
November	279.8	54.1	74.7	51.8	52.3
December	277.0	44.5	32.4	45.9	50.0
January'01	279.6	55.2	76.9	52.8	57.1
February	278.6	47.9	72.7	45.1	58.3
March	278.7	50.2	69.1	48.1	57.9
April	276.4	45.4	57.8	44.0	50.0
May	274.5	46.2	48.1	46.0	55.6
June	274.8	50.2	47.1	50.5	50.0
July	270.1	40.6	54.4	39.1	61.8
August	269.8	49.4	50.2	49.3	56.7
September	267.3	44.9	67.4	42.4	53.6

* This index is a weighted average of mfg. and non-mfg. ** Not seasonally adjusted.

Note: As of the April 2001, NEW seasonal factors were applied to data since 1999.

Which of the following may be the key to next year's economic prognosis?

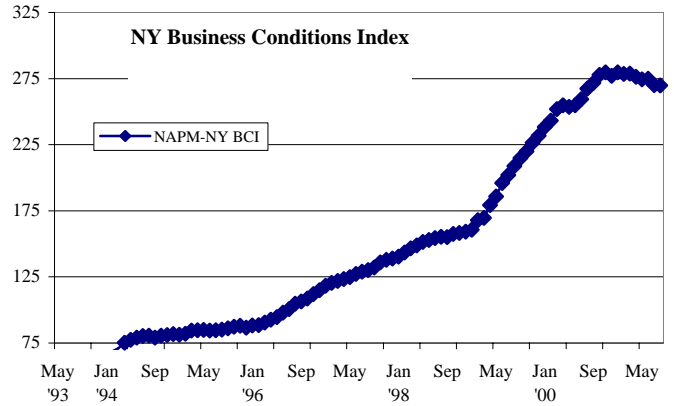


New York Business Conditions Index

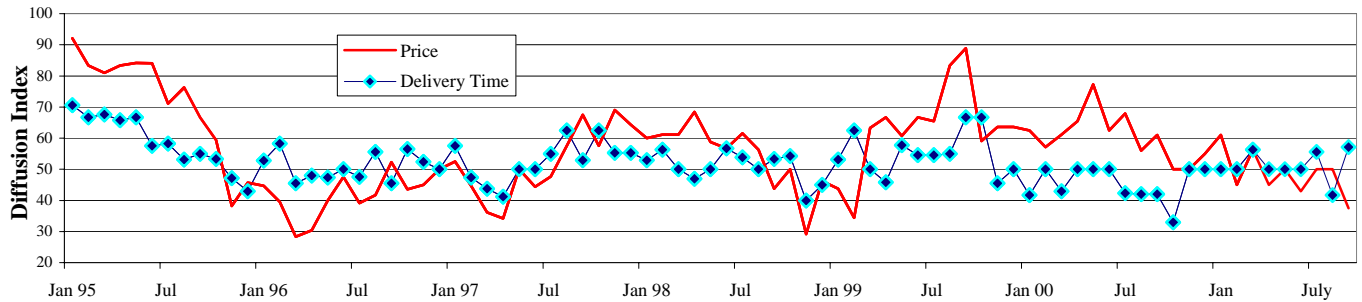
The NY business conditions index is a cumulative diffusion index of the NYC-area's current business conditions. The BCI tends to precede or move with local-area employment. However, the employment data are available 1 or 2 months later than that of the NAPM-NY BCI.

	Sep	Aug	July	June	Year ago Sep
NY BCI	267.3	269.8	270.1	274.8	271.7
% Change M/M	-0.9	-0.1	-1.7	0.0	1.6

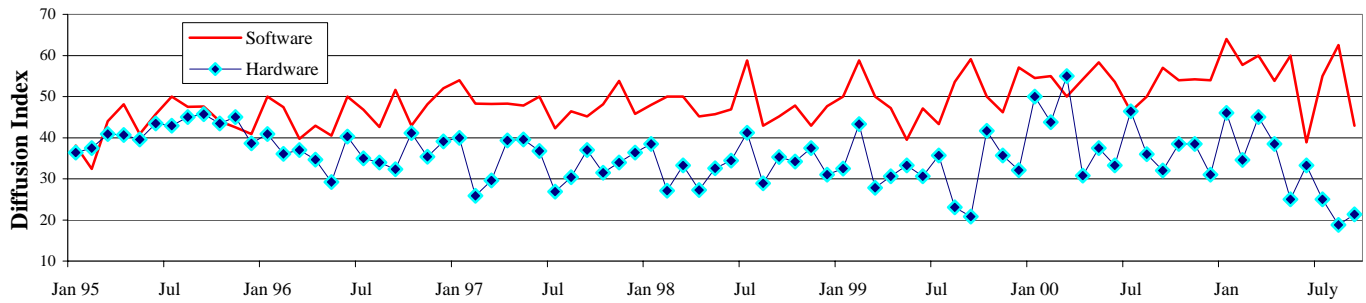
Comments: This is a typically slow period.
Slightly worse--but not measurably.



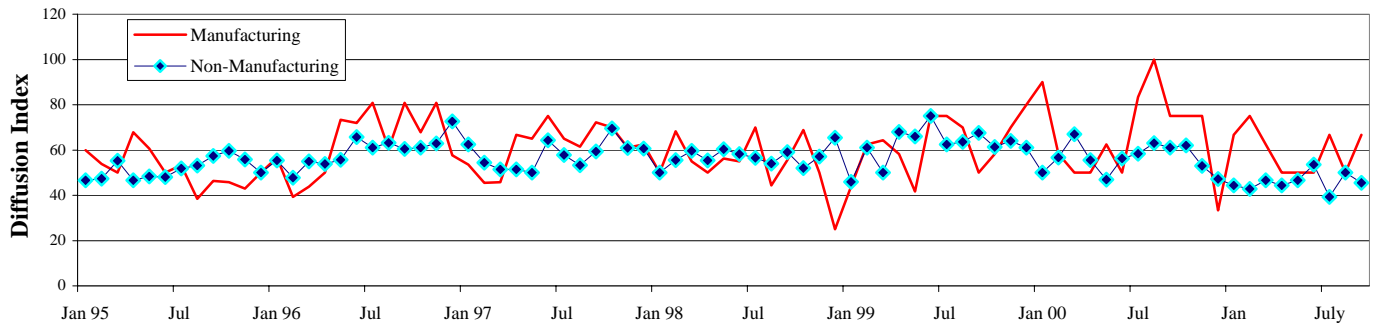
Corrugated Packaging Prices & Delivery Time



Computer Hardware & Software Prices



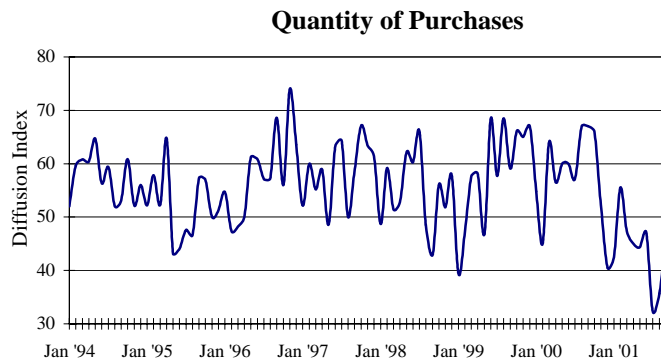
Current Conditions - Manufacturing vs. Non-Manufacturing Activity



Quantity of Purchases

The overall quantity (units not dollars) of purchases, including raw materials, MRO, components, intermediates, and services, compared with the previous month.

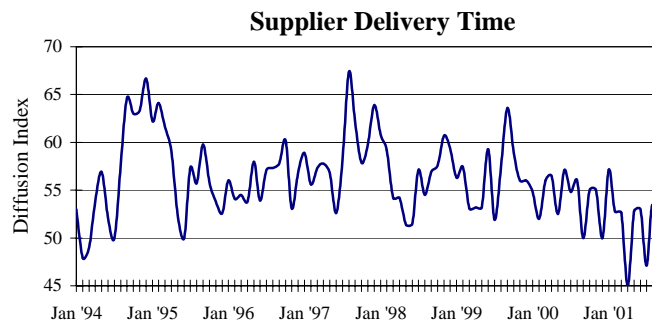
	Sep	Aug	July	June	May	Year ago Sep
Composite	46	35	32	47	44	67
Manufacturing	66	50	50	33	50	75
Non-Mfg.	40	33	29	50	43	65



Supplier Delivery Time

An aggregate evaluation of the current month's delivery performance (lead time) compared January'00. This index is the percent reporting slower deliveries plus one-half reporting same.

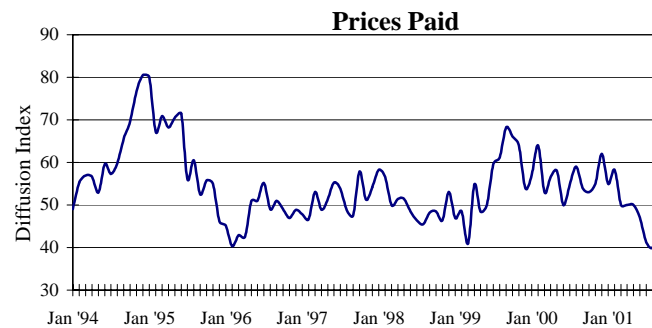
	Sep	Aug	July	June	May	Year ago Sep
Composite	38	53	47	53	53	50
Manufacturing	33	50	50	50	50	50
Non-Mfg.	40	53	46	54	44	50



Prices Paid

The change from the prior month in prices of items -- goods and services, purchased. This is an overall evaluation weighted by quantity of purchase.

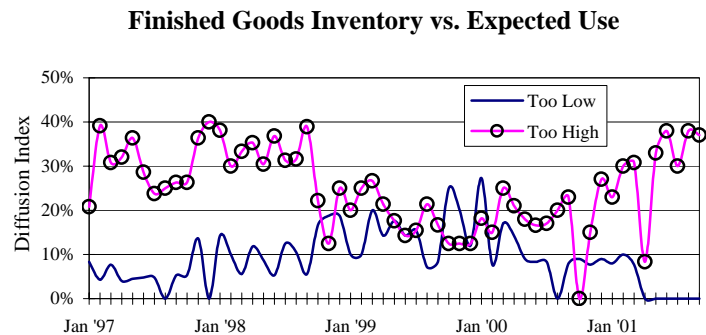
	Sep	Aug	July	June	May	Year ago Sep
Composite	45	40	41	47	50	54
Manufacturing	50	0	33	33	50	50
Non-Mfg.	43	46	43	50	50	55



Finished Goods Inventory Relative to Use

The overall inventory level (units, not dollars) of products held for sale (finished goods) relative to expected use.

	Sep	Aug	July	June	May	Year ago Sep
Composite	68	69	65	69	67	58
% too high	37	38	30	38	33	23
Manufacturing	66	50	67	67	67	50
Non-Mfg.	70	75	67	70	67	61

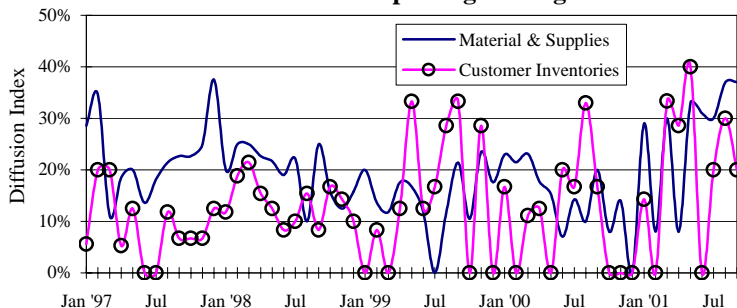


Raw Materials & Customer Inventory

The overall inventory level (units, not dollars) of products held for sale (finished goods) relative to expected use.

	Year ago					
	Sep	Aug	July	June	May	Sep
Materials & Supplies	37.0	37.0	30.0	31.0	33.0	20.0
Customer Inventories	20.0	30.0	20.0	0.0	40.0	20.0

Material & Customer Stocks vs. Expected Use % Reporting too High



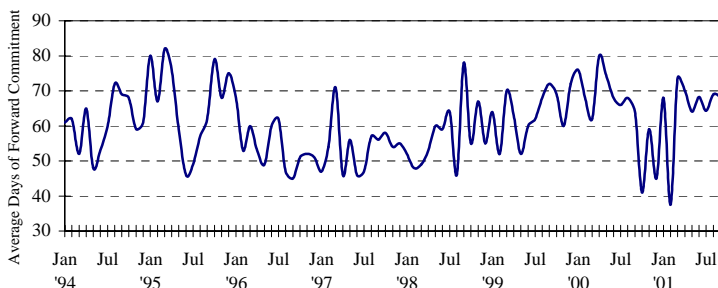
Buying Policy for Production Materials

The period of forward commitment for production materials.

	Year ago					
	Sep	Aug	July	June	May	Sep
Average Days	68	69	64	68	64	64

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
68	22%	33%	22%	0%	0%	11%

Production Materials



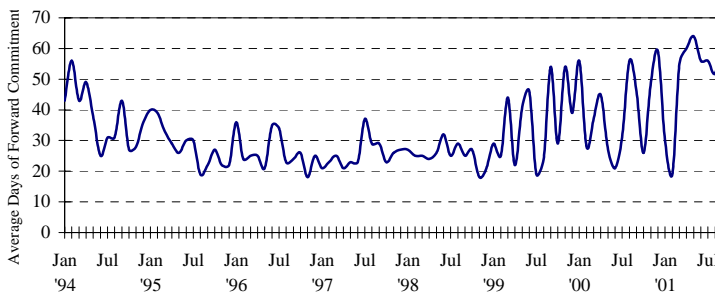
Buying Policy for MRO Supplies

The period of forward commitment for maintenance, repair, and operation supplies.

	Year ago					
	Sep	Aug	July	June	May	Sep
Average Days	65	53	56	56	64	46

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
65	44%	22%	0%	11%	0%	11%

MRO Supplies



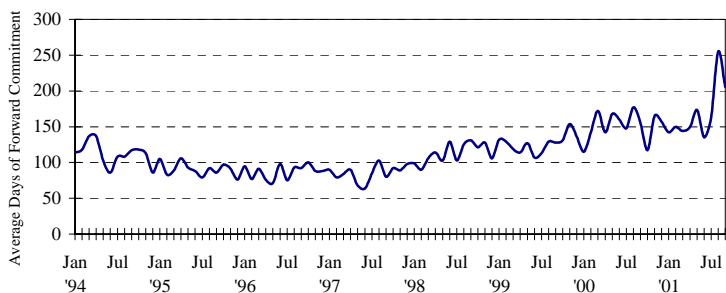
Buying Policy for Capital Expenditures

The period of forward commitment for capital goods.

	Year ago					
	Sep	Aug	July	June	May	Sep
Average Days	205	225	163	135	173	155

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
205	14%	0%	0%	0%	57%	29%

Capital Equipment



Specific Price Changes & Supplier Deliveries

COMMODITIES	--- PRICE CHANGES ---			--- VENDOR DELIVERIES ---		
	Sep	Aug	July	Sep	Aug	July
Castings	50.0	50.0	62.5	50.0	50.0	62.5
Chemicals	58.3	40.0	50.0	50.0	50.0	50.0
Computer Hardware	21.4	18.8	25.0	57.1	58.3	50.0
Computer Software	+++ 42.9	62.5	55.0	50.0	50.0	50.0
Corrugated Packaging	37.5	50.0	50.0	57.1	41.7	55.6
Electrical Components	66.7	50.0	33.3	50.0	50.0	50.0
Energy	+++ 50.0	70.0	33.3	50.0	50.0	50.0
Ferrous Metals	50.0	269.8	270.1	50.0	50.0	50.0
Food Products		50.0	50.0		50.0	50.0
Glass	50.0		50.0	50.0		50.0
Hydraulic Components		50.0	75.0		50.0	
Medical Supplies	50.0	50.0	50.0	50.0	50.0	50.0
Nonferrous Metals	50.0	50.0	33.3	50.0	50.0	50.0
Office Equipment (non-computer)	50.0	50.0	41.7	50.0	50.0	45.5
Office Supplies	41.7	55.5	50.0	50.0	50.0	50.0
Piping & Tubing	50.0	50.0	50.0	50.0	50.0	50.0
Plastics	50.0	66.7	50.0	50.0	50.0	50.0
Plating	50.0	50.0	50.0	50.0	50.0	50.0
Printing Paper	+++ 58.3	33.3	55.6	50.0	50.0	50.0
Rubber Products	50.0	50.0	50.0	50.0	50.0	50.0
Textile Products		50.0			50.0	
Wood & Pulp	100.0	50.0	50.0	100.0	50.0	25.0
Services (Contracted)				"Hot Spots" are those commodities & services that have experienced upward price pressure with delivery delays (for commodities) for at least three months. Where are the HOT SPOTS? Cleaning, Construction and Architectural services.		
Cleaning	+++ 50.0	50.0	60.0			
Construction	+++ 50.0	50.0	50.0			
Painting	25.0	50.0	50.0			
Engineering	50.0	50.0	66.7			
Architectural	+++ 100.0	66.7	50.0			
Temporary Personnel	50.0	50.0	50.0			
Computer Consultants	66.7	50.0	50.0			

+++ = Commodity or service price diffusion index above 50% for at least the last three months.

Items in Short Supply

Purchaser Comments

For our industry no good news is forthcoming but 12-18 months forward will probably be better. Cost containment measures continue. Expect that our purchases over the next few months will be lower due to our need to reduce finished goods inventory. Slowdown spreads throughout our customer base. There is no good news in marketplace.

About the Survey

The purpose of the survey is to quickly assess business conditions among manufacturers and non-manufacturing firms/organizations doing business in the New York area. The survey results are compiled into three summary measures for: (1) all industries, (2) manufacturing firms, and (3) non-manufacturing establishments. The manufacturing component can be compared to the NAPM Purchasing Manager's Index for the nation. The survey results are compiled as diffusion indexes, which are calculated by taking the percentage of the respondents answering higher plus one-half of the percentage of respondents who answer same or no change. Hence, a reading of 50% means no change from the prior month; greater than 50% indicates a faster pace of activity while a reading of less than 50% indicates a slowing in the pace of activity.