



NEW YORK CITY ECONOMIC FOCUS:
CROSSING THE LINE

Business conditions in New York City continued to deteriorate in November, as the local economy wrestled with the aftershocks of the *World Trade Center* attack and the now officially-confirmed national economic recession. *And while the Big Apple's business community and political stewards impatiently await the bottom of this current slide, the dismal economic statistics continue to accumulate.* Among the more prominent: The New York City Comptroller's Office estimates that the *gross city product* contracted at a seasonally-adjusted 1.6 percent annual rate in the third quarter, the first quarterly decline since the business expansion began in earnest in the mid-1990s; the citywide job count is tumbling; the local unemployment rate is rising; and emptier office towers, less-crowded hotels and worried retailers have replaced the frenetic bustle of years past. Not surprisingly, business confidence and consumer spirits have waned as the reverberations of the September 11 attack spread, reflective of the gaping wound inflicted upon the Big Apple which, at least figuratively, will never heal entirely.

The crossing of the line between moderate economic growth in the first half of this year to outright economic contraction in the third quarter—and most likely the current quarter as well—has not gone unnoticed by the members of the *National Association of Purchasing Management-New York (NAPM-NY)*. Quite the contrary, the Association's *Business Conditions Index (BCI)*—the principal gauge of the current health of the local economy—has been declining nonstop since July, *and the descent has picked up speed in the wake of the events of September 11.* As shown in the table opposite, the *BCI* dropped to 246.2 in November (1996=100), *down a hefty 3.1 percent compared with October.* Although November's tumble was a bit less sharp than that registered in October, the news is still grim; during the two-month October-November period, the *BCI* has tumbled by nearly eight percent and currently stands not far from its February 2000 reading. The size of this decline suggests that the third quarter's contraction of *gross city product* was simply the first frost of the cold economic winter to come, and the fourth quarter will be worse.

To be sure, winters always yield to spring, but since 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 sharp decline in the *BCI* over the past two months suggests that it may indeed be next spring, if not longer, before a sustained business rebound flowers. This downcast assessment is further affirmed by the anemic reading of the *current conditions diffusion index*—a gauge of the industry breadth of economic upswings or downturns—especially its non-manufacturing component which represents nearly 95 percent of the local economy. *With no services industry respondents reporting improving business conditions in November, and one-third reporting worsening conditions, not only did the non-manufacturing index remain at recessionary readings, but the overall diffusion index (at 34.4) also remains deeply riveted in contractionary territory, for the third month in a row.* While manufacturing has arguably stabilized, everything else is perched precariously at razor's edge; knowing this, purchasing manager expectations of future economic performance darkened further in November.

Commenting on these findings, survey director and senior regional economist at *JPMorgan*, Marc M. Goloven, stated that "...the recent findings of the *NAPM-NY* survey starkly illustrate what was widely, and accurately feared—namely, that the striking economic growth enjoyed by New York City in recent years has come to an abrupt halt. The key question now becomes: For how long? While no one knows, the Big Apple still retains plenty of assets; blend together this city's entrepreneurial and hard-charging residents, its densely-packed small business base, its community-concerned corporate culture and an incoming Administration at City Hall committed to pursuing the same stunningly-successful growth-oriented policies that marked the Giuliani Administration, and the ingredients required by the recovery recipe are already at hand." Nonetheless, while the recovery recipe may be at hand, so, too, are some of the current downturn's "leftovers;" *reflecting the deterioration of business conditions, nearly one-half of the purchasing managers surveyed stated that their company is definitely planning on pruning its headcount over the balance of this year and another 18 percent said maybe—however, since actual employment trends typically mirror "what was" rather than "what-will-be," let's hope that this labor market snapshot does the same.*

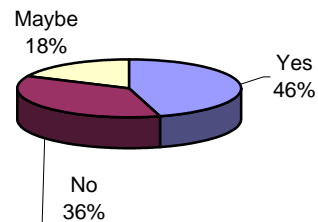
NY Regional Business Conditions Indexes

(Seasonally Adjusted, Except Where Noted)

	NY-BCI	Current*	Mfg.	Non-Mfg.	Outlook**
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
October	254.0	23.5	34.2	22.3	50.0
November	246.2	34.4	49.9	32.7	45.8

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

Is your company planning staff reductions over balance of this year?

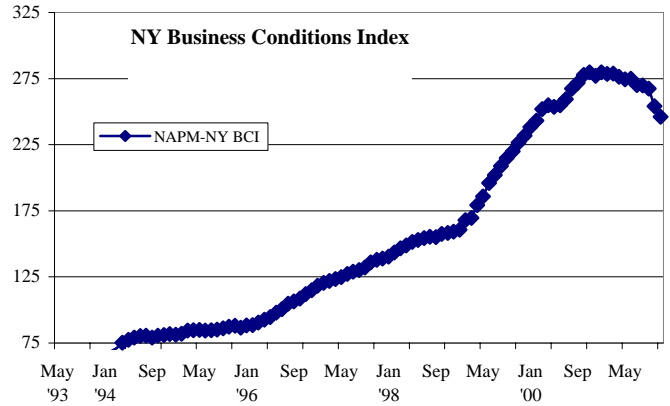


New York Business Conditions Index

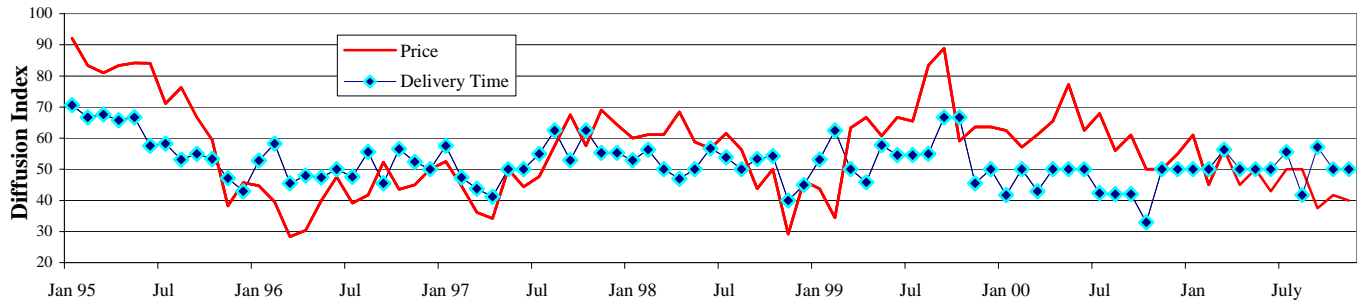
The NY business conditions index is a cumulative diffusion index of the NYC-area's current business conditions. The BCI tends to precede or move with local-area employment. However, the employment data are available 1 or 2 months later than that of the NAPM-NY BCI.

	Nov	Oct	Sep	Aug	Year ago Nov
NY BCI	246.2	254.0	267.3	269.8	279.8
% Change M/M	-3.1	-5.0	-0.9	-0.1	0.7

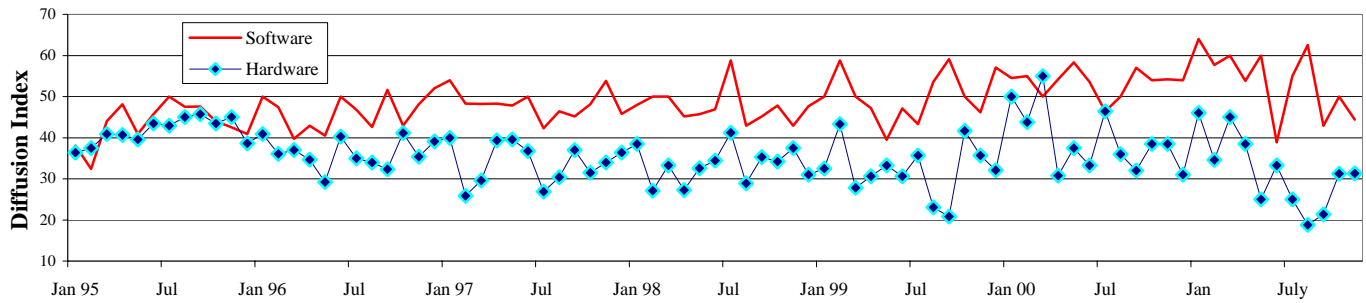
Comments: Still looking for a turnaround in 1st and 2nd quarters



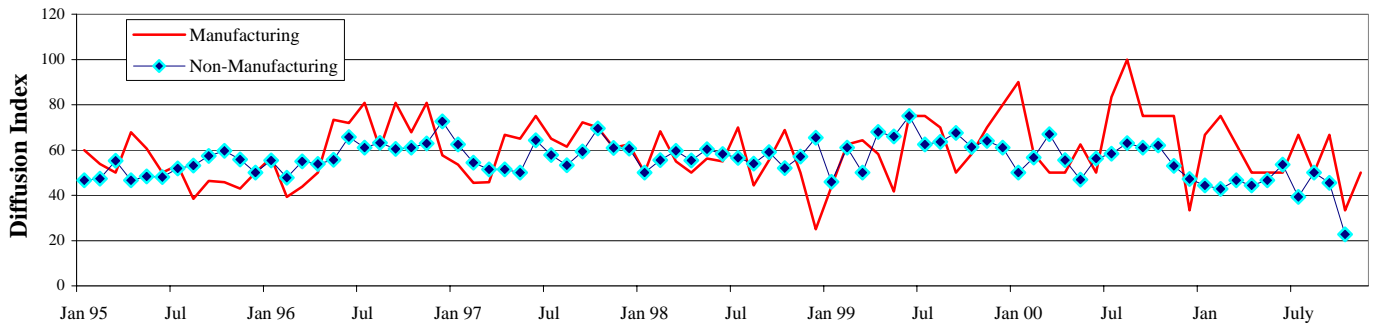
Corrugated Packaging Prices & Delivery Time



Computer Hardware & Software Prices



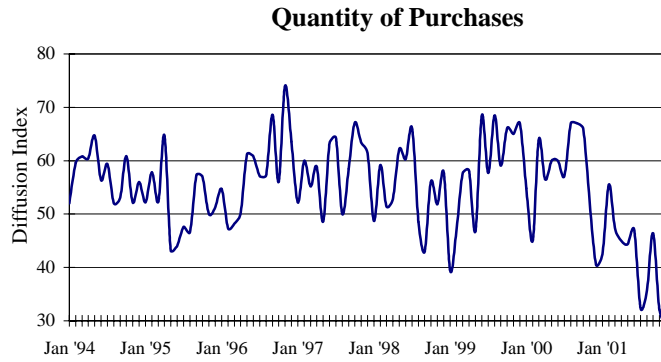
Current Conditions - Manufacturing vs. Non-Manufacturing Activity



Quantity of Purchases

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

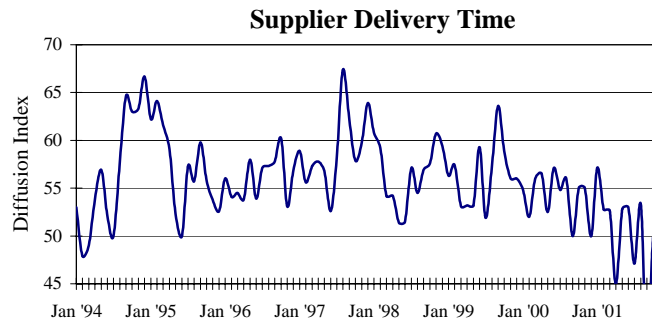
	Year ago					
	Nov	Oct	Sep	Aug	July	Nov
Composite	29	32	46	35	32	52
Manufacturing	33	33	66	50	50	50
Non-Mfg.	27	31	40	33	29	52



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.

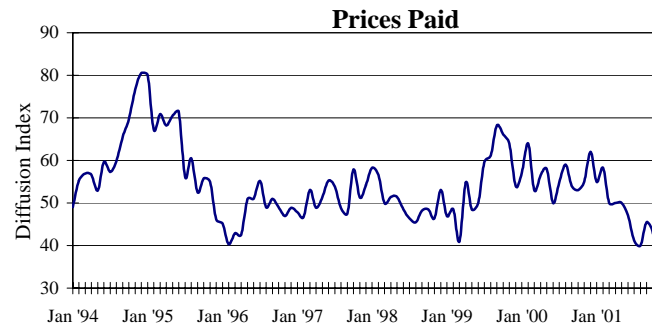
	Year ago					
	Nov	Oct	Sep	Aug	July	Nov
Composite	50	50	38	53	47	55
Manufacturing	50	50	33	50	50	50
Non-Mfg.	50	40	40	46	46	56



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.

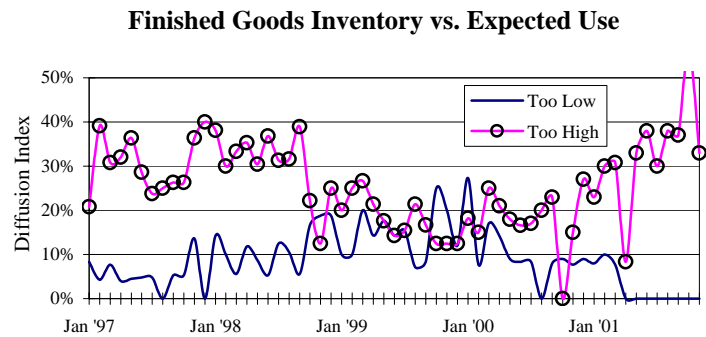
	Year ago					
	Nov	Oct	Sep	Aug	July	Nov
Composite	33	42	45	40	41	55
Manufacturing	33	16	50	0	33	38
Non-Mfg.	33	50	43	46	43	58



Finished Goods Inventory Relative to Use

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

	Year ago					
	Nov	Oct	Sep	Aug	July	Nov
Composite	66	78	68	59	65	54
% too high	33	57	37	38	30	15
Manufacturing	66	66	66	50	67	50
Non-Mfg.	66	87	75	75	67	56

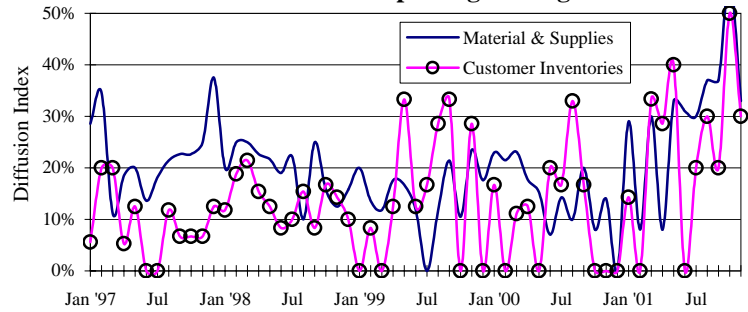


Raw Materials & Customer Inventory

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

	Year ago					
	Nov	Oct	Sep	Aug	July	Nov
Materials & Supplies	33.0	57.0	37.0	37.0	30.0	14.0
Customer Inventories	30.0	50.0	20.0	30.0	20.0	0.0

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



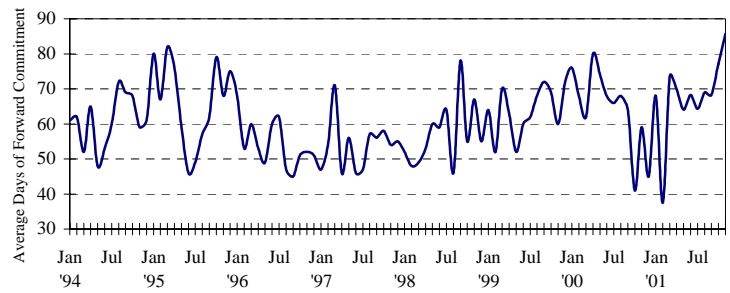
Buying Policy for Production Materials

The period of forward commitment for production materials.

	Year ago					
	Nov	Oct	Sep	Aug	July	Nov
Average Days	85	77	68	69	64	59

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
85	0%	57%	29%	0%	0%	14%

Production Materials



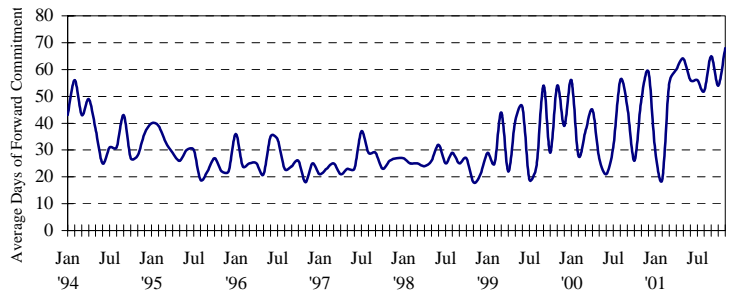
Buying Policy for MRO Supplies

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

	Year ago					
	Nov	Oct	Sep	Aug	July	Nov
Average Days	68	54	65	53	56	49

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
68	38%	38%	0%	13%	0%	13%

MRO Supplies



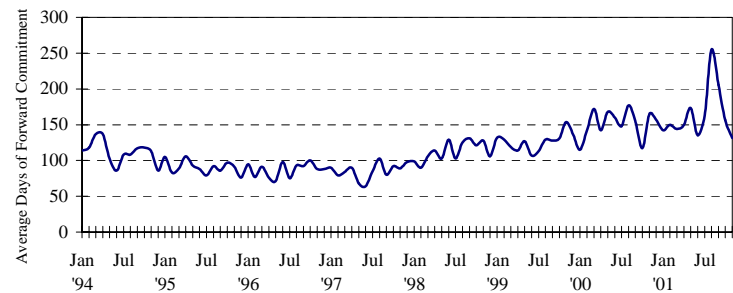
Buying Policy for Capital Expenditures

The period of forward commitment for capital goods.

	Year ago					
	Nov	Oct	Sep	Aug	July	Nov
Average Days	131	156	205	225	163	165

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
131	0%	25%	0%	38%	25%	13%

Capital Equipment



Specific Price Changes & Supplier Deliveries

COMMODITIES	--- PRICE CHANGES ---			--- VENDOR DELIVERIES ---		
	Nov	Oct	Sep	Nov	Oct	Sep
Castings	50.00	50.00	50.0	50.00	50.00	50.0
Chemicals	50.00	50.00	58.3	50.00	50.00	50.0
Computer Hardware	31.25	31.25	21.4	50.00	41.67	57.1
Computer Software	+++ 44.40	50.00	42.9	50.00	41.67	50.0
Corrugated Packaging	40.00	41.67	37.5	50.00	50.00	57.1
Electrical Components	25.00	50.00	66.7	50.00	50.00	50.0
Energy	+++ 33.00	0.00	50.0	50.00	50.00	50.0
Ferrous Metals	25.00	50.00	50.0	50.00	50.00	50.0
Food Products						
Glass	50.00	50.00	50.0	50.00	50.00	50.0
Hydraulic Components						
Medical Supplies	25.00	50.00	50.0			50.0
Nonferrous Metals	50.00	16.67	50.0	50.00	50.00	50.0
Office Equipment (non-computer)	50.00	50.00	50.0	50.00	50.00	50.0
Office Supplies	50.00	43.75	41.7	50.00	50.00	50.0
Piping & Tubing	0.00	50.00	50.0	50.00	50.00	50.0
Plastics		25.00	50.0	50.00	50.00	50.0
Plating		50.00	50.0	50.00	50.00	50.0
Printing Paper	+++ 50.00	40.00	58.3	50.00	50.00	50.0
Rubber Products	50.00	50.00	50.0	50.00	50.00	50.0
Textile Products						
Wood & Pulp	75.00	50.00	100.0	50.00	75.00	100.0
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	+++ 50.00	50.00	50.0			
Construction	+++ 50.00	50.00	50.0			
Painting	50.00	50.00	25.0			
Engineering	50.00	50.00	50.0			
Architectural	+++ 37.50	62.50	100.0			
Temporary Personnel	41.67	62.50	50.0			
Computer Consultants	40.00	40.00	66.7			

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

Items in Short Supply

Purchaser Comments

Slow business conditions.
 October business was back to normal levels.
 Cost containment strategies continue.
 Activity continues to be driven by disaster recovery--some project work has started to return.

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.