National Association of Purchasing Management

NAPM-New York Report on Business

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NEW YORK CITY FOCUS: REACHING BOTTOM

After experiencing a steeper-than-usual seasonal swoon in business activity in January, the New York City economy reversed course in February—railing itself back onto the growth track and retracing much of the month-earlier decline. Whether this is due to a relaxation of the grip of the national recession or a fading of the business-hobbling reverberations of the September 11 attack on lower Manhattan is uncertain; more likely, it is a blend of both, since the pickup in the business pace was widely distributed across the spectrum of service-producing and manufacturing industries. However, while these findings of the latest monthly survey of the *National Association of Purchasing Management-New York (NAPM-NY)* tend to validate the reported firming of Big Apple business activity occurring at the end of last year, *the New York City economy remains deeply bruised by the events of September 11, and a quick return to the healthy economic climate and the robust labor market existing as recently as a year ago still seems unlikely*.

Indeed, these findings are fully consistent with the recently-released estimate of *gross city product* prepared by the New York City *Comptroller's Office*. According to the *Comptroller*, the *gross city product (GCP)* contracted at a seasonally-adjusted 4.4 percent annual rate in the fourth quarter of 2001; since this comes on the heels of a two percent annualized decline in the *GCP* in the third quarter, *the city's economy has now crossed the popularly-perceived threshold of recession*—two straight quarters of negative economic growth, something which the national economy has not experienced. And, the *Business Conditions Index (BCI)* of the *NAPM-NY*—the Association's principal gauge of current economic activity—has mirrored the easing of the gross city product, tumbling by 5.6 percent in the fourth quarter of last year and by 2.7 percent in the third quarter. Since the *BCI's* descent has slowed decidedly during the first two months of this year, averaging only 0.9 percent below the average level of the final two months of last year, the implication is clear—*the abrupt plunge of the Big Apple economy following September 11has just about reached bottom and, with a little luck and some firming of the financial markets, hopes for a springtime flowering of the recovery are still alive.*

Reflecting substantial improvements both in the service-producing industries, which dominate the local economy and in manufacturing, which plays an ever-smaller supporting role, *the BCI rose by 2.7 percent in February month-over-month*, to a level of 250.2 (see table opposite), nearly reversing the 3.4 percent drop in this index occurring in January. But the substance is in the details, specifically the big increase in the *current conditions diffusion indexes*. With a sizable minority (about one-quarter) of respondents reporting an improvement in the business clip in February, while most others reported stable conditions, *the overall current conditions diffusion index—which measures the industry breadth of both expansions and contractions—leaped to 63.1, similar to the December reading, and deep in expansion territory*. A reading of 50 usually indicates a holding pattern; anything above this threshold suggests a pickup in business while anything below signals the opposite.

The firming of business locally, not to mention the multiplying signs of revival nationally, seem to have brightened the spirits of New York City's purchasing agents. *The outlook/expectations index rose in February to its highest level since September 2000*, reflecting a growing belief that the national, if not the local, recession is over. While expectations of a better 2002 may ultimately bode well for the labor market, it hasn't happened yet. *When the purchasing managers were asked about the hiring outlook at their company in the months ahead, the news was not good*—three of every four respondents stated that it was *bad* and another eight percent said it was even *worse than bad*; less than one in five believed the outlook was *good*. Commenting on these findings, survey director and senior regional economist at *JPMorgan*, Marc M. Goloven, stated that "…although these findings may suggest that the worst of the Big Apple's business contraction is over, signs of the commencement of a full-fledged economic recovery are still scarce. One trouble spot is the labor market which remains inarguably soft—until this changes, regardless of the sequential significance of this indicator in the course of economic events, the restoration of the Big Apple's vibrancy will be incomplete."

New York City Business Conditions Indexes

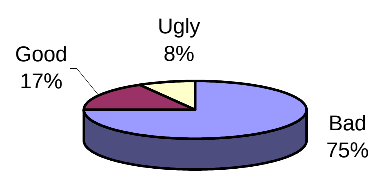
(Seasonally Adjusted, Except Where Noted)

	NY-BCI	Current*	Mfg.	Non-Mfg.	Outlook**
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
December	252.3	62.2	72.6	61.0	60.0
January'02	243.6	32.6	57.6	29.8	50.0
February	250.2	63.1	72.3	62.1	65.4

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

Note: As of January 2002, new seasonal factors were applied.

What is the outlook for hiring at your company in the months ahead?



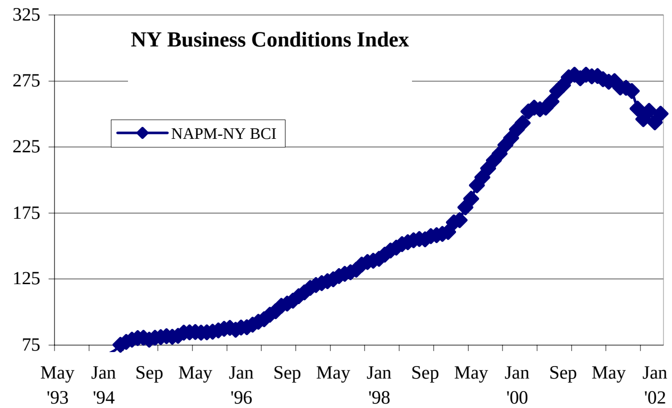
For technical questions on the survey, please call Jenny Garrido at 212-899-1465. For Internet access, connect to: http://www.napm-ny.org

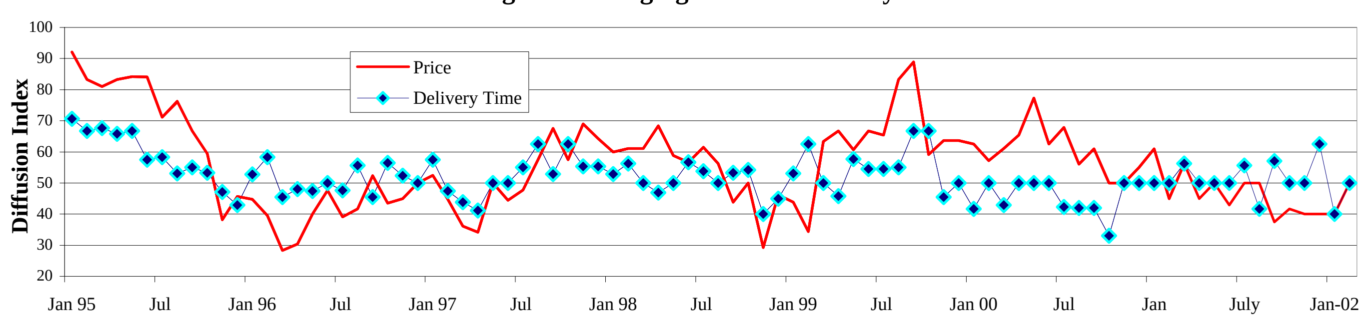
New York Business Conditions Index

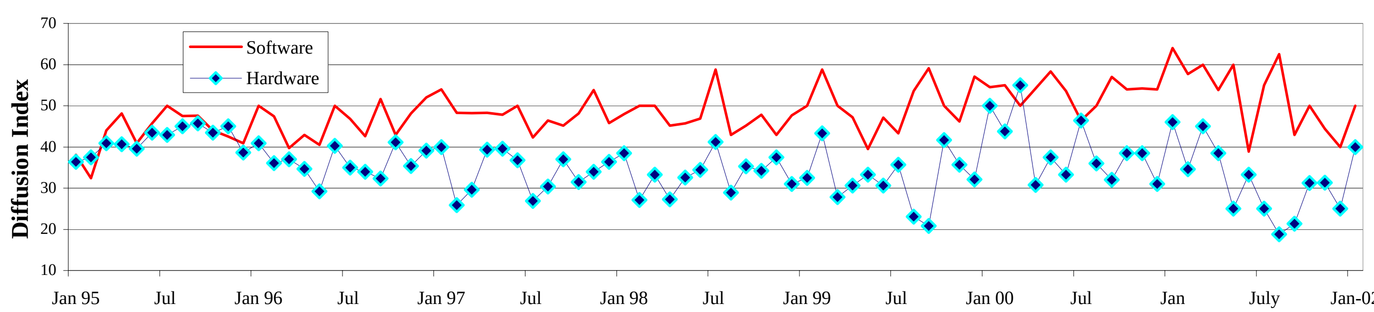
The NY business conditions index is a cumulative diffusion index of the NYC-area's current business conditions. The BCI tends to precede or move with local-area employment. However, the employment data are available 1 or 2 months later than that of the NAPM-NY BCI.

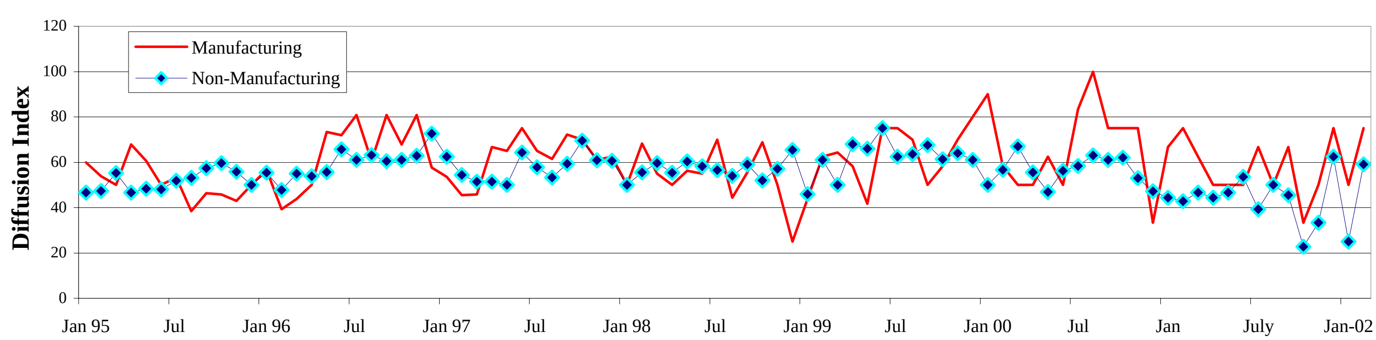
	Feb	Jan	Dec	Nov	Year ago Feb
NY BCI	250.2	243.6	252.3	246.2	278.6
% Change M/M	2.7	-3.4	2.5	-3.1	-0.4

Comments: Vacations are over, the staff is back, and this translates into more activity.
Consumer bank deposits and mortgage originations at all-time high.





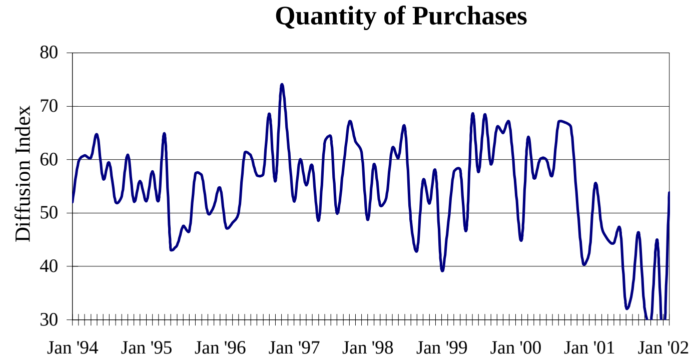




Quantity of Purchases

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

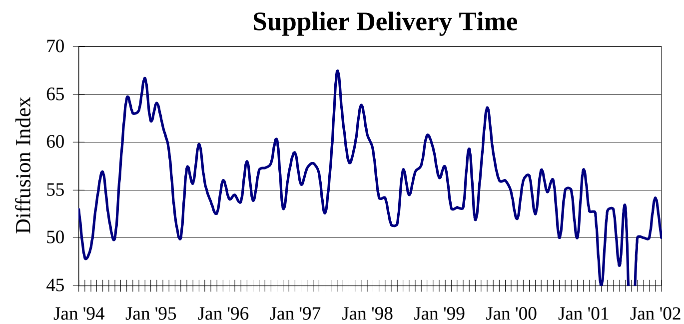
	Feb	Jan	Dec	Nov	Oct	Year ago Feb
Composite	53	25	45	29	32	55
Manufacturing	75	25	25	33	33	75
Non-Mfg.	50	25	50	27	31	50



Supplier Delivery Time

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

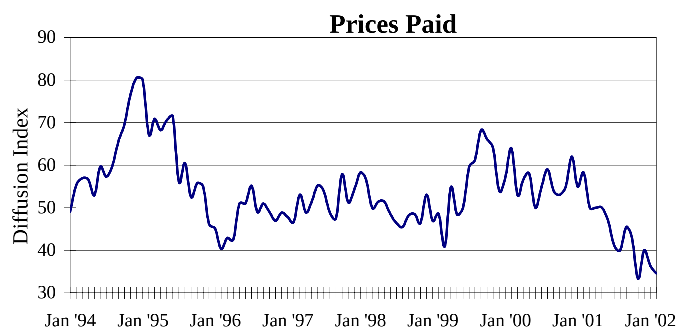
	Feb	Jan	Dec	Nov	Oct	Year ago Feb
Composite	50	54	50	50	50	52
Manufacturing	50	50	50	50	50	50
Non-Mfg.	50	55	50	50	40	53



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.

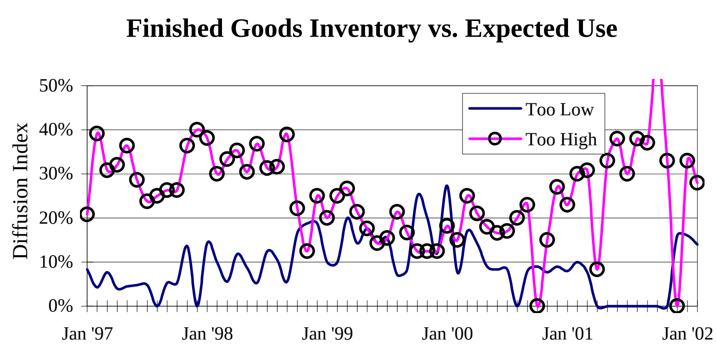
	Feb	Jan	Dec	Nov	Oct	Year ago Feb
Composite	34	36	40	33	42	58
Manufacturing	25	25	25	33	16	50
Non-Mfg.	36	38	43	33	50	60



Finished Goods Inventory Relative to Use

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

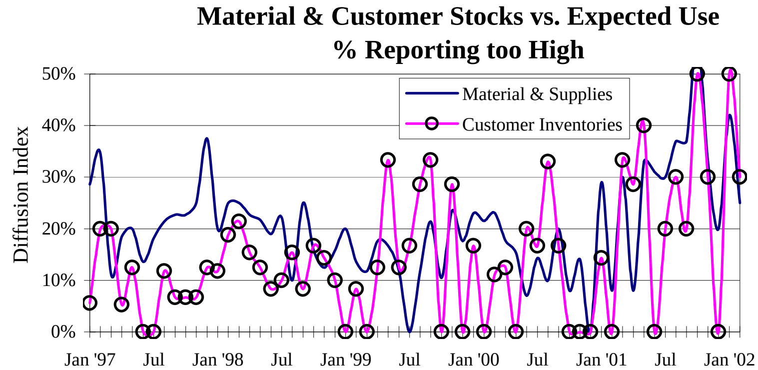
	Feb	Jan	Dec	Nov	Oct	Year ago Feb
Composite	57	58	41	66	78	60
% too high	28	33	0	33	57	30
Manufacturing	25	25	25	66	66	50
Non-Mfg.	70	75	50	66	87	67



Raw Materials & Customer Inventory

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

	Feb	Jan	Dec	Nov	Oct	Year ago Feb
Materials & Supplies	25.0	42.0	20.0	33.0	57.0	8.0
Customer Inventories	30.0	50.0	0.0	30.0	50.0	0.0

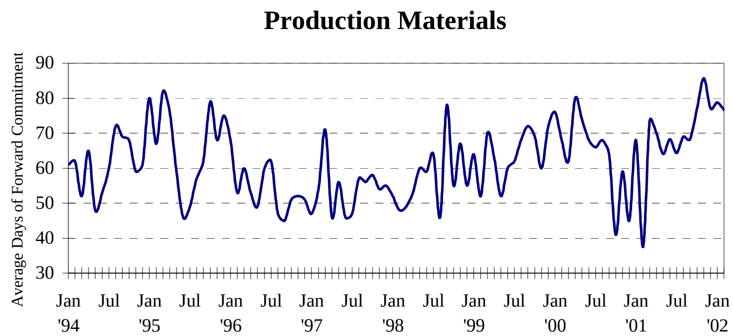


Buying Policy for Production Materials

The period of forward commitment for production materials.

	Feb	Jan	Dec	Nov	Oct	Year ago Feb
Average Days	76	78	77	85	77	37

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
76	11%	44%	22%	11%	0%	11%

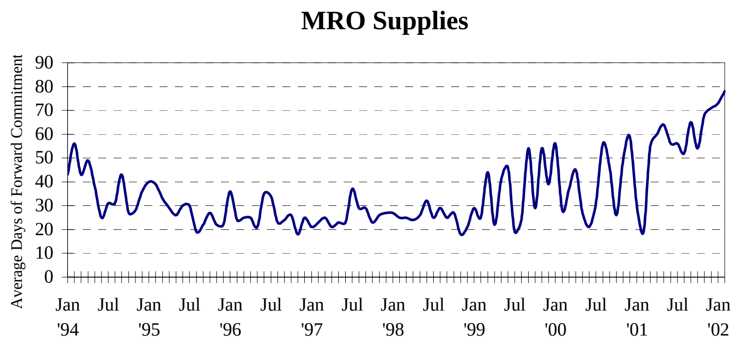


Buying Policy for MRO Supplies

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

	Feb	Jan	Dec	Nov	Oct	Year ago Feb
Average Days	78	73	71	68	54	19

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
78	30%	30%	10%	10%	10%	10%

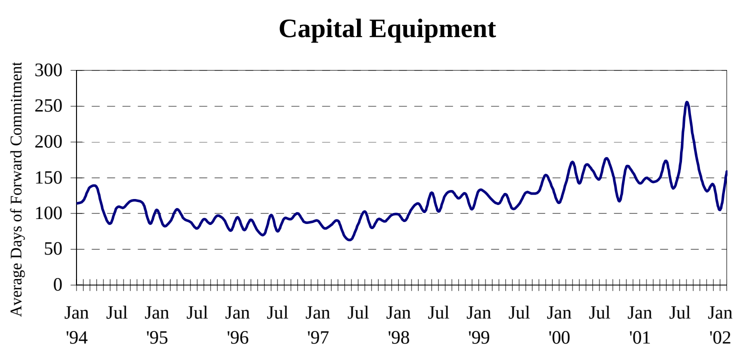


Buying Policy for Capital Expenditures

The period of forward commitment for capital goods.

	Feb	Jan	Dec	Nov	Oct	Year ago Feb
Average Days	158	105	140	131	156	150

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
158	14%	14%	0%	29%	14%	29%



Specific Price Changes & Supplier Deliveries

COMMODITIES		--- PRICE CHANGES --- Feb	Jan	Dec	--- VENDOR DELIVERIES --- Feb	Jan	Dec
Castings		50.00	50.00	50.00	25.00	50.00	50.00
Chemicals		50.00	37.50	50.00	50.00	50.00	50.00
Computer Hardware		35.70	40.00	25.00	50.00	60.00	50.00
Computer Software	+++	41.70	50.00	40.00	50.00	50.00	50.00
Corrugated Packaging		50.00	40.00	40.00	50.00	40.00	62.50
Electrical Components		50.00	50.00	50.00	50.00	50.00	50.00
Energy	+++	50.00	0.00	50.00	50.00	50.00	50.00
Food Products		50.00			50.00		
Glass							
Hydraulic Components							
Medical Supplies			50.00			50.00	
Nonferrous Metals		50.00	50.00	50.00	50.00	50.00	50.00
Office Equipment (non-computer)		42.90	50.00	50.00	50.00	50.00	50.00
Office Supplies		38.90	50.00	37.50	50.00	50.00	41.67
Piping & Tubing		75.00	50.00	50.00	50.00	50.00	50.00
Plastics		25.00	0.00	50.00	50.00	75.00	50.00
Plating		50.00	50.00	50.00	50.00	50.00	50.00
Printing Paper	+++	33.30	42.86	41.67	50.00	50.00	50.00
Rubber Products							
Textile Products							
Wood & Pulp		100.00	75.00	75.00	100.00	50.00	75.00

Services (Contracted)		Feb	Jan	Dec
Cleaning	+++	50.00	50.00	50.00
Construction	+++	50.00	33.30	50.00
Painting		60.00	50.00	50.00
Engineering		62.50	50.00	50.00
Architectural	+++	40.00	25.00	50.00
Temporary Personnel		50.00	50.00	50.00
Computer Consultants		0.00	50.00	50.00

"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.

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

Items in Short Supply

No major shortages.

Purchaser Comments

Market conditions have stabilized, producing a positive outlook for the 3rd and 4th quarters of 2002.

Business is picking up but the ascent is slow.

Markets still slumping.

Although bank business was slower than normal, activity levels were not. We were pitching to clients more than ever to get business, which meant that the purchasing staff was as busy as ever.

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.