National Association of Purchasing Management

# NAPM-New York
# Report on Business

Peter Oppenheimer, C.P.M., Executive Director, NAPM - New York, (516) 466-9822

**June 28, 2002**

## *NEW YORK CITY BUSINESS FOCUS:*
## ***STEPPING BACKWARD . . . INTO SUMMER***

Following four straight months of improvement, New York City's business pace took a step backward in June, crossing into the summer season on a semi-sour note according to the findings of the latest monthly survey of the *National Association of Purchasing Management-New York (NAPM-NY)*. For although residential real estate remains exceptionally strong, the commercial office market appears to be stabilizing, manufacturing is expanding and the theaters of *Broadway*, if not *Off Broadway*, are again setting attendance records, *the Big Apple economy has seemingly entered the same "soft spot" to which Federal Reserve Chairman Alan Greenspan recently referred when describing the national economy.* The culprits behind this reversal of fortune are not hard to spot: The *financial services industry*, especially selected segments of investment banking, continues to be afflicted by reduced activity levels and diminished staffing needs; the *information technology industry* in general, and its progeny on *Silicon Alley* in particular remain beset with the ill effects of capital spending cutbacks and revenue shortfalls; numerous *not-for-profits* are being squeezed by the chilly economic climate and city budget cutbacks; and *advertising's* rebound is in its infancy.

All of these still existing speed bumps on the highway to recovery are summarized by two things: First, the citywide *unemployment rate*, which climbed to a lofty eight percent in May according to the *State Labor Department*, up from 7.7 percent in April and 5.6 percent in May 2001 and, second, the *Business Conditions Index (BCI)* of the *NAPM-NY*, the Association's principal gauge of current economic activity. Although the *BCI* has been steadily climbing back toward September 11 levels since February, this upward trend was interrupted in June; the *BCI* fell by1-1/2 percent in June month-over-month to the level of 256.4 (see table opposite), reversing almost all of the gain posted in May. Nonetheless, the second quarter was still far better than the two quarters which preceded it. *Reflecting the recuperating business pace, the BCI rose by 3-1/2 percent in the second quarter compared with the first quarter*, a decided swing for the better when compared with the 0.1 percent quarter-over-quarter drop in the first quarter and the sharp 7.4 percent quarterly decline in the *BCI* posted in the fourth quarter of last year.

To be sure, it is possible that the weakened economy is causing the usual summertime slowdown in the local business pace to occur earlier this year, a trend which cannot be adequately captured by the current crop of seasonal adjustment factors. For although the *current conditions diffusion index*, a composite of manufacturing and non-manufacturing businesses which measures the industry breadth of expansions and contractions, plunged in June from a level indicating solid expansion (57.9 in May) to a level deep in contractionary territory (42.4), this exaggerates the severity of the pullback; most respondents actually reported stable business conditions in June, while one-quarter stated that they were deteriorating and one-quarter said they were improving. *This would tend to suggest that the economy is treading water rather than drowning in a rising recessionary tide*; if this is indeed a seasonal/statistical pothole portending few far-reaching implications, as it seems, the evidence will be available in a month or two.

*Whether a seasonal pothole or not, local purchasing agents remain relatively upbeat—just not as upbeat as in recent months, however.* The *outlook/expectations index* dipped modestly in June but remains well above the June 2001 level; while there is always something to worry about, one trouble spot is the city budget, and the likelihood of a yawning deficit in the upcoming fiscal year. When asked how the Mayor should handle this imbalance, *the overwhelming majority favored reducing spending rather than raising taxes*—a sure sign that memories of the early 1990s economic tailspin, and the state and city policy mistakes that deepened it, never have faded completely. Commenting on these findings, survey director and senior regional economist at *JPMorgan*, Marc M. Goloven stated that "…the pullback in business activity in June is less than surprising in view of the ongoing wobblies affecting *Wall Street* and *Silicon Alley*, the caution of the business community and the softness of the job market. Nevertheless, the city economy has traveled a long way toward recovery over the past nine months—and further improvements are in store as the resiliency of such industries as real estate, healthcare, legal services and tourism ultimately trump the nagging worries about stock prices, disappearing dot-coms and budget balances."

## New York City Business Conditions Indexes

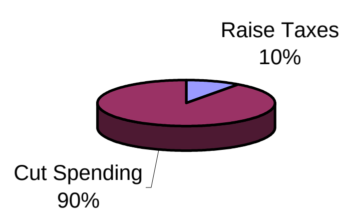
(Seasonally Adjusted, Except Where Noted)

| | NY-BCI | Current* | Mfg. | Non-Mfg. | Outlook** |
|---|---|---|---|---|---|
| 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 |
| March | 252.5 | 54.6 | 82.8 | 51.5 | 75.0 |
| April | 256.2 | 57.5 | 87.6 | 54.2 | 66.6 |
| May | 260.2 | 57.9 | 72.2 | 56.3 | 61.1 |
| June | 256.4 | 42.4 | 94.1 | 36.7 | 59.1 |

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

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

**Mayor Bloomberg faces a significant budget deficit: Should he:**





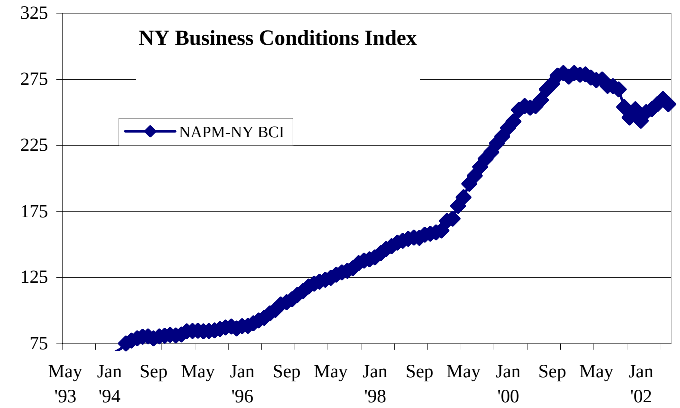

For technical questions on the survey, please call Jenny Garrido at 212-899-1465. For Internet access, connect to: http://www.napm-ny.org

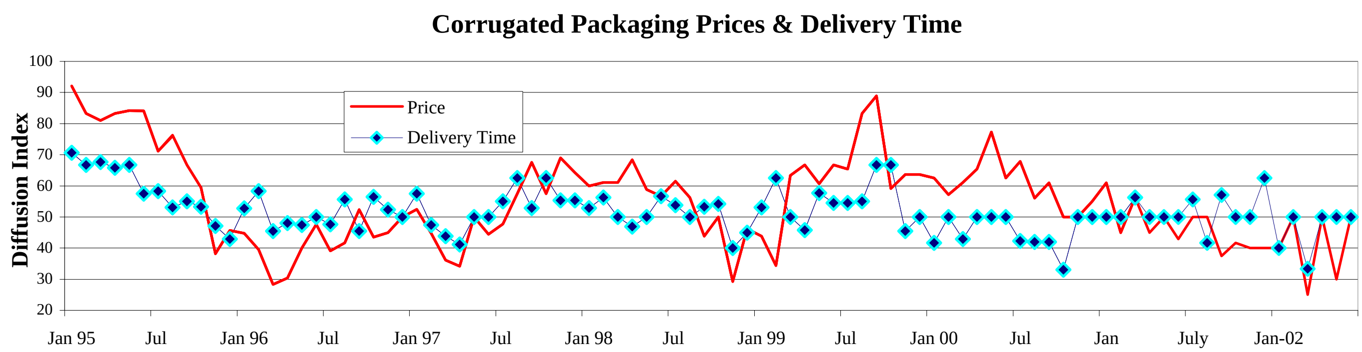
*New York Business Conditions Index*

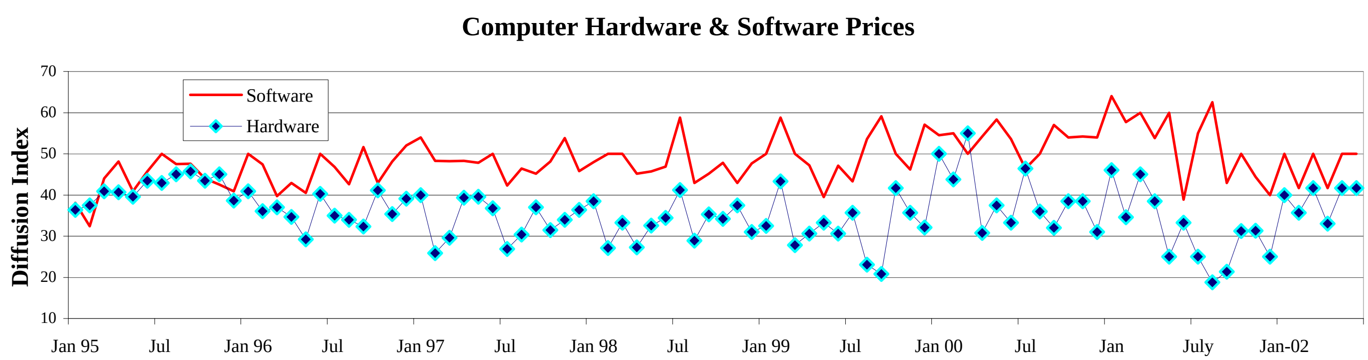
The NY business conditions index is a cumulative diffusion index of the NYC-area's current business conditions. The BCI tends to precede or move with local-area employment. However, the employment data are available 1 or 2 months later than that of the NAPM-NY BCI.

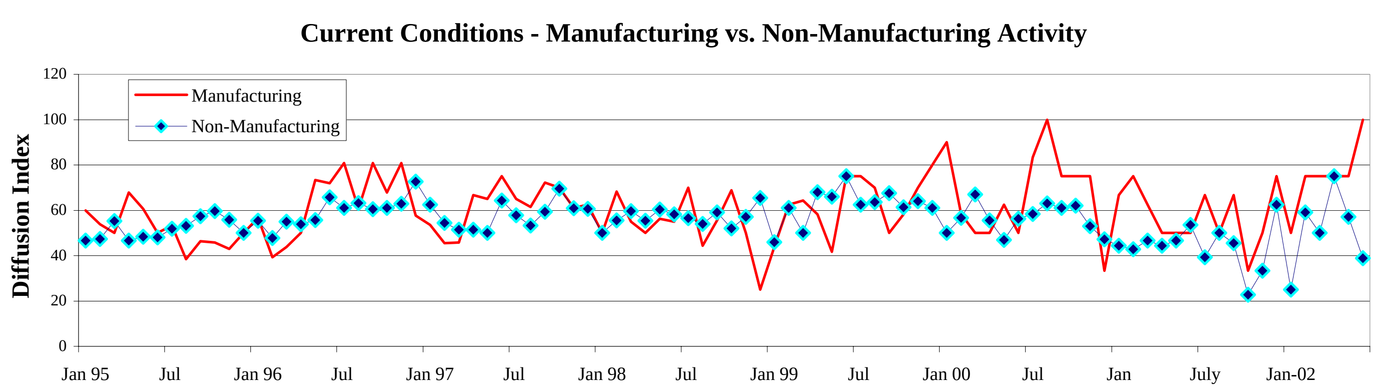
| | June | May | Apr | Mar | Year ago June |
|---|---|---|---|---|---|
| NY BCI | 256.4 | 260.2 | 256.2 | 252.5 | 274.8 |
| % Change M/M | -1.5 | 1.6 | 1.5 | 0.9 | 0.0 |

Comments: Business has leveled off; perhaps due to the arrival of summer.

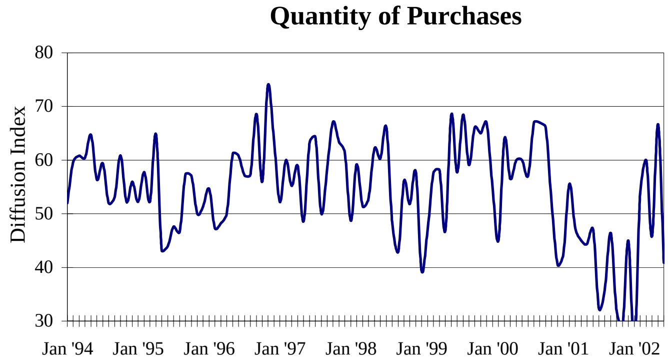


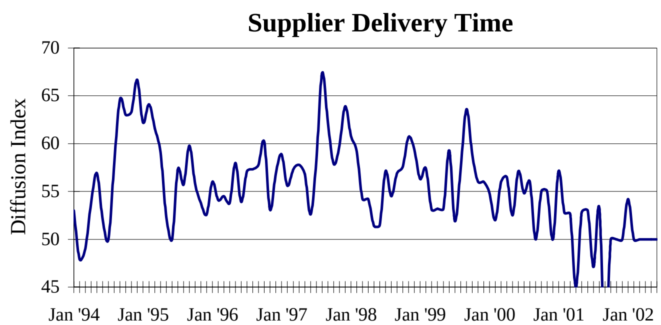
## *Quantity of Purchases*




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

| | June | May | Apr | Mar | Feb | Year ago June |
|---|---|---|---|---|---|---|
| Composite | 40 | 66 | 45 | 60 | 53 | 47 |
| Manufacturing | 75 | 100 | 75 | 75 | 75 | 33 |
| Non-Mfg. | 33 | 57 | 40 | 56 | 50 | 50 |

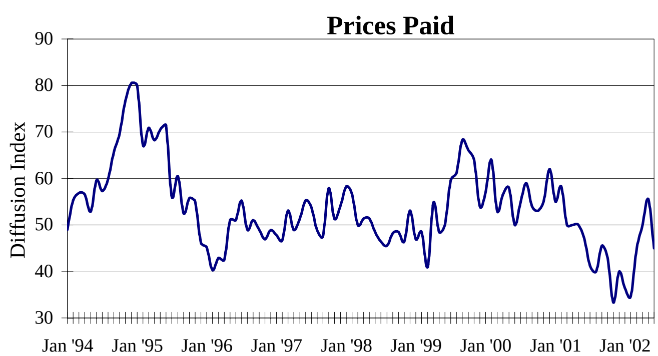
## *Supplier Delivery Time*




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.

| | June | May | Apr | Mar | Feb | Year ago June |
|---|---|---|---|---|---|---|
| Composite | 50 | 50 | 50 | 50 | 50 | 53 |
| Manufacturing | 50 | 50 | 50 | 50 | 50 | 50 |
| Non-Mfg. | 50 | 50 | 55 | 50 | 50 | 53 |

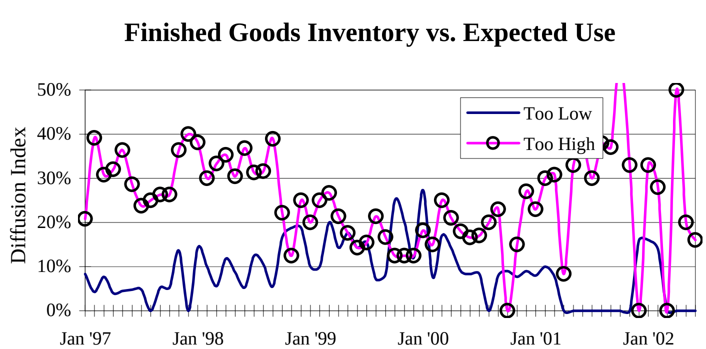
## *Prices Paid*




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

| | June | May | Apr | Mar | Feb | Year ago June |
|---|---|---|---|---|---|---|
| Composite | 45 | 55 | 50 | 45 | 34 | 47 |
| Manufacturing | 50 | 50 | 75 | 50 | 25 | 33 |
| Non-Mfg. | 43 | 57 | 45 | 36 | 36 | 50 |

## *Finished Goods Inventory Relative to Use*



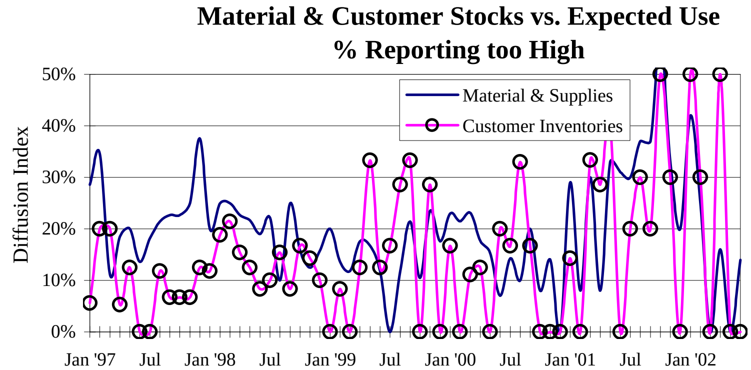

The overall inventory level (units, not dollars) of products held for sale (finished goods) relative to expected use.

| | June | May | Apr | Mar | Feb | Year ago June |
|---|---|---|---|---|---|---|
| Composite | 58 | 60 | 75 | 50 | 57 | 69 |
| % too high | 16 | 20 | 50 | 0 | 28 | 38 |
| Manufacturing | 50 | 75 | 75 | 50 | 25 | 67 |
| Non-Mfg. | 62 | 50 | 75 | 50 | 70 | 70 |

## Raw Materials & Customer Inventory

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

| | June | May | Apr | Mar | Feb | Year ago June |
|---|---|---|---|---|---|---|
| Materials & Supplies | 14.0 | 0.0 | 16.0 | 0.0 | 25.0 | 31.0 |
| Customer Inventories | 0.0 | 0.0 | 50.0 | 0.0 | 30.0 | 0.0 |

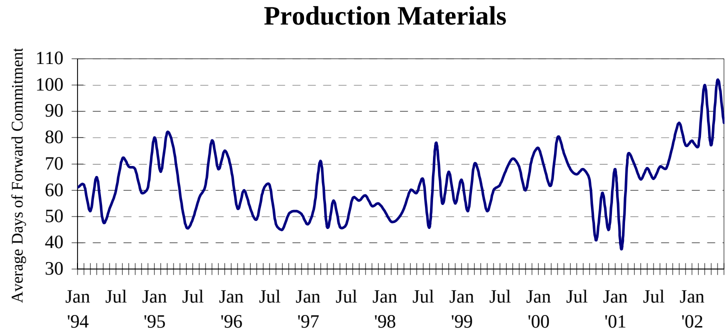



## Buying Policy for Production Materials

The period of forward commitment for production materials.

| | June | May | Apr | Mar | Feb | Year ago June |
|---|---|---|---|---|---|---|
| Average Days | 85 | 102 | 77 | 100 | 76 | 68 |

| Weighted Average Number of Days | Hand to Mouth | 30 Days | 60 Days | 90 Days | 6 Months | 1 Year or More |
|---|---|---|---|---|---|---|
| 85 | 14% | 29% | 43% | 0% | 0% | 14% |

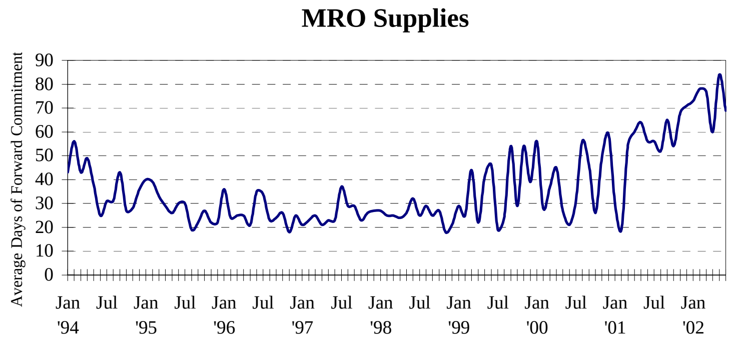



## Buying Policy for MRO Supplies

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

| | June | May | Apr | Mar | Feb | Year ago June |
|---|---|---|---|---|---|---|
| Average Days | 69 | 84 | 60 | 77 | 78 | 56 |

| Weighted Average Number of Days | Hand to Mouth | 30 Days | 60 Days | 90 Days | 6 Months | 1 Year or More |
|---|---|---|---|---|---|---|
| 69 | 29% | 57% | 0% | 0% | 0% | 14% |

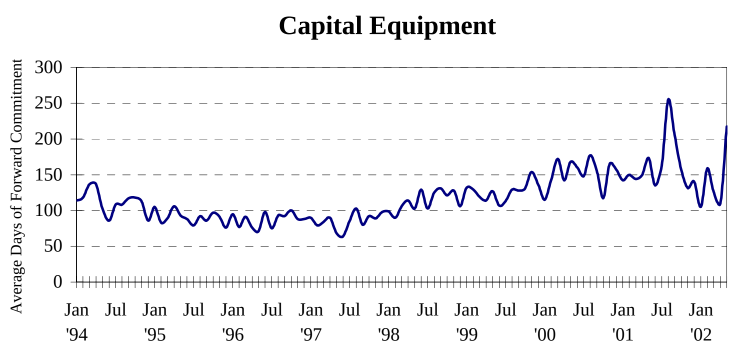



## Buying Policy for Capital Expenditures

The period of forward commitment for capital goods.

| | June | May | Apr | Mar | Feb | Year ago June |
|---|---|---|---|---|---|---|
| Average Days | 120 | 217 | 110 | 126 | 158 | 135 |

| Weighted Average Number of Days | Hand to Mouth | 30 Days | 60 Days | 90 Days | 6 Months | 1 Year or More |
|---|---|---|---|---|---|---|
| 120 | 20% | 0% | 20% | 40% | 0% | 20% |



## Specific Price Changes & Supplier Deliveries

| COMMODITIES | | --- PRICE CHANGES --- June | May | Apr | --- VENDOR DELIVERIES --- June | May | Apr |
|---|---|---|---|---|---|---|---|
| Castings | | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| Chemicals | | 50.0 | 50.0 | 50.0 | 50.0 | 66.7 | 50.0 |
| Computer Hardware | | 41.7 | 41.7 | 33.3 | 50.0 | 50.0 | 50.0 |
| Computer Software | +++ | 50.0 | 50.0 | 41.7 | 40.0 | 50.0 | 50.0 |
| Corrugated Packaging | | 50.0 | 30.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| Electrical Components | | 50.0 | 66.7 | 50.0 | 50.0 | 50.0 | 50.0 |
| Energy | +++ | 50.0 | 33.3 | 0.0 | 50.0 | 50.0 | 50.0 |
| Ferrous Metals | | 50.0 | 50.0 | | 50.0 | 50.0 | |
| Food Products | | 50.0 | 50.0 | | 50.0 | 50.0 | 50.0 |
| Glass | | | | | | | |
| Hydraulic Components | | | | | | | |
| Medical Supplies | | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| Nonferrous Metals | | 50.0 | 60.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| Office Equipment (non-computer) | | 50.0 | 40.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| Office Supplies | | 50.0 | 42.9 | 42.9 | 50.0 | 50.0 | 50.0 |
| Piping & Tubing | | 50.0 | 66.7 | 50.0 | 50.0 | 50.0 | 50.0 |
| Plastics | | 75.0 | 75.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| Plating | | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| Printing Paper | +++ | 40.0 | 40.0 | 30.0 | 50.0 | 50.0 | 50.0 |
| Rubber Products | | | | | | | |
| Textile Products | | | 50.0 | | | | |
| Wood & Pulp | | 100.0 | 100.0 | 100.0 | 0.0 | 100.0 | 100.0 |
| **Services (Contracted)** | | | | | | | |
| Cleaning | +++ | 33.3 | 33.3 | 50.0 | | | |
| Construction | +++ | 50.0 | 50.0 | 50.0 | | | |
| Painting | | 50.0 | 50.0 | 50.0 | | | |
| Engineering | | 50.0 | 50.0 | 50.0 | | | |
| Architectural | +++ | 33.3 | 50.0 | 25.0 | | | |
| Temporary Personnel | | 37.5 | 25.0 | 50.0 | | | |
| Computer Consultants | | 33.3 | 25.0 | 33.3 | | | |

"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

## Purchaser Comments

1. Generally quiet, and continue looking to cut expenses wherever feasible.
2. Weak economic conditions continue to hit *not-for-profit* companies exceptionally hard.
3. New York City area activity increasing. Westchester and Rockland Counties still very slow.

## 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.