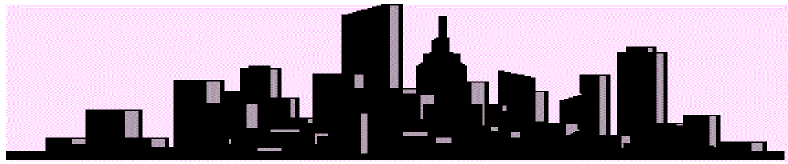
NAPM-New York
Report on Business



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

October 31, 2003

NEW YORK CITY REPORT ON BUSINESS
BUILDING THE RECOVERY'S BASE

Although it may be premature to herald the recession's end in New York City—especially with the five borough unemployment rate standing at a lofty 8.8 percent—there are some signs that the worst is over, and that the process of building the recovery's base has begun. *For the first time since the spring of last year, New York City purchasing managers are reporting back-to-back monthly improvements in the local business pace*; what's more, the latest monthly findings of the *National Association of Purchasing Management-New York (NAPM-NY)* suggest that the gains of October were encouragingly broad-based, stretching across the spectrum of manufacturing and service-providing industries. While the city's economy has, admittedly, experienced "false starts" before, the current upturn in activity that is being reported by the *NAPM-NY* coincides with several other positive developments. These include the *City Comptroller's* estimate that Big Apple employers added 12,300 payroll jobs in September, after seasonal adjustment, the biggest one-month gain since September 2000; the restoration of profitability in the all-important financial services industry and a striking slowing of job losses in the brokerage industry; and the near certainty of fatter Wall Street bonus payments at yearend.

The warming of the local business climate is being noticed by New York City purchasing managers who, by the very nature of their positions and the decisions they make, are often the tripwire signaling subsequent alterations in the economy, for better or for worse. This time around, it is for the better. Extending the modest advance posted in September, the *Business Conditions Index (BCI)* of the *NAPM-NY*, the Association's principal gauge of *current* economic activity, rose to 226.4 in October (see table opposite), an increase of 1.9 percent compared with September. This marks the largest monthly increase in the *BCI* since February 2002 when the economy snapped back temporarily from the chasm into which it fell following the destruction of the *World Trade Center*; *the BCI bounce also provides a welcome palliative for anxious retailers who are wairly awaiting the onset of the Holiday selling season*. Over the past three months, stretching from August through October, the *BCI* eked out a modest 0.7 percent *increase*, a decided improvement compared with the 1-1/2 percent *decline* in this Index posted during the August-October 2002 period.

Powering the upturn in the October reading of the *BCI* was a sharp improvement in activity levels in the service-providing industries, which comprise the lion's share of the local economy. Although the financial services industry typically captures the most attention, the bettering of this industry is occurring simultaneously with the ongoing growth of such other mainstays as *healthcare, private education* and *accounting services*. Because of this, the *current conditions diffusion index*, which measures the industry breadth of business upturns and downturns, vaulted deep into expansionary territory in October, rising to a level of 58.2. This marks the loftiest perch for this gauge this year. And, whereas the Big Apple's manufacturing sector has been in positive territory all year long (denoted by readings of the *manufacturing diffusion index* above 50), the service-providing industries have experienced the opposite, remaining well entrenched in recessionary territory. Until now, as the *non-manufacturing diffusion index* rose to 54.7—*reflecting the fact that only a small minority of respondents reported a deterioration of business in October*.

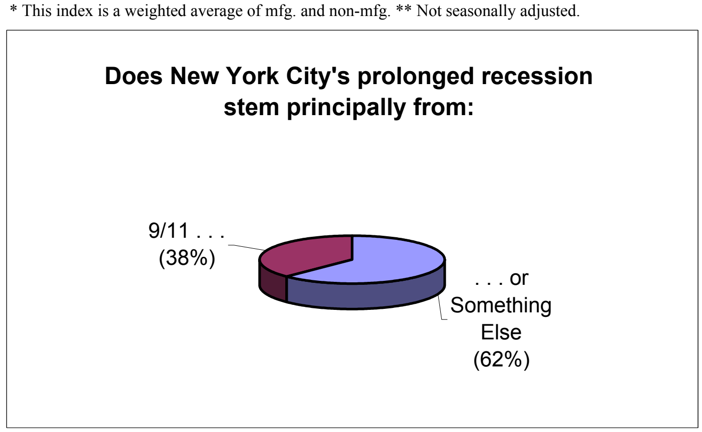
Not surprisingly, the acceleration of economic activity is buoying the spirits of local purchasing agents. The *NAPM-NY outlook/expectations* index remained riveted at one of its highest levels of the year in October, standing at 62.5. This is a significant improvement compared with October 2002 confidence levels. Since the recession has lingered so long, the purchasing managers were asked whether they thought the events of September 11, 2001 were principally responsible for the chronic fatigue. Nearly 40 percent believed that the attack on lower Manhattan was the primary recessionary catalyst; more than 60 percent felt otherwise, that a pre-existing economic weakness was amplified by September 11. *Ironically, both views are probably correct*—what might have been a short and shallow spring-summer local recession in 2001, was lengthened and deepened by the shock of September. Commenting on these findings, Marc M. Goloven, senior regional economist at *JPMorganChase* and Chair of the *NAPM-NY Business Survey Committee* stated that "...the October findings may mark a definitive break in the recessionary pattern gripping the city for the past 2-1/2 years. Only time will tell, but this is good news just in time to lend some cheer to the festivities of the approaching Holiday season."

New York City Business Conditions Indexes

(Seasonally Adjusted, Except Where Noted)

	NY-BCI	Current*	Mfg.	Non-Mfg.	Outlook**
August'01	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	245.6	30.9	58.4	27.9	50.0
February	254.4	67.5	75.3	66.6	65.4
March	255.4	52.0	75.3	49.4	75.0
April	259.1	57.5	81.1	54.8	66.6
May	262.6	56.9	78.3	54.6	61.1
June	258.1	41.0	93.1	35.2	59.1
July	257.1	48.1	64.4	46.3	75.0
August	255.0	45.7	82.4	41.6	50.0
September	254.0	48.1	59.4	46.9	50.0
October	253.2	48.4	59.2	47.2	50.0
November	257.6	58.7	54.1	59.2	56.3
December	254.3	43.4	62.4	41.3	41.0
January '03	253.8	49.0	58.4	48.0	61.1
February	247.5	37.3	50.3	35.9	55.0
March	242.1	39.2	74.8	35.3	61.1
April	236.1	38.0	80.6	33.3	56.3
May	230.2	38.3	78.8	33.8	61.1
June	226.7	43.1	92.8	37.5	62.5
July	224.9	46.2	64.8	44.2	62.5
August	221.7	43.6	81.6	39.4	57.1
September	222.2	51.1	90.2	46.8	62.5
October	226.4	58.2	90.0	54.7	62.5

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

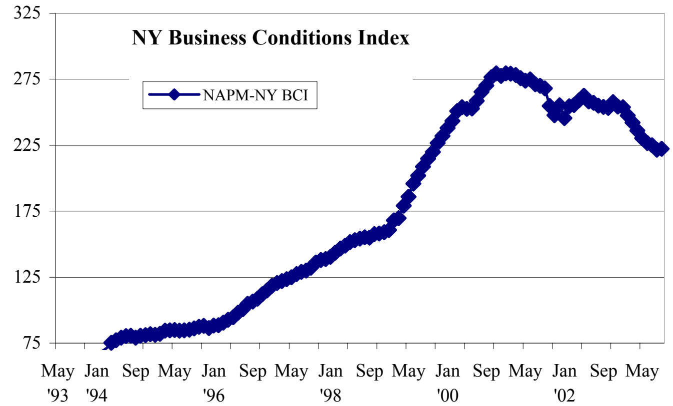


For technical questions on the survey, please call Ms. Jenny Garrido, Research Coordinator, at 212-307-8682. For Internet access, connect to: http://www.napm-ny.org

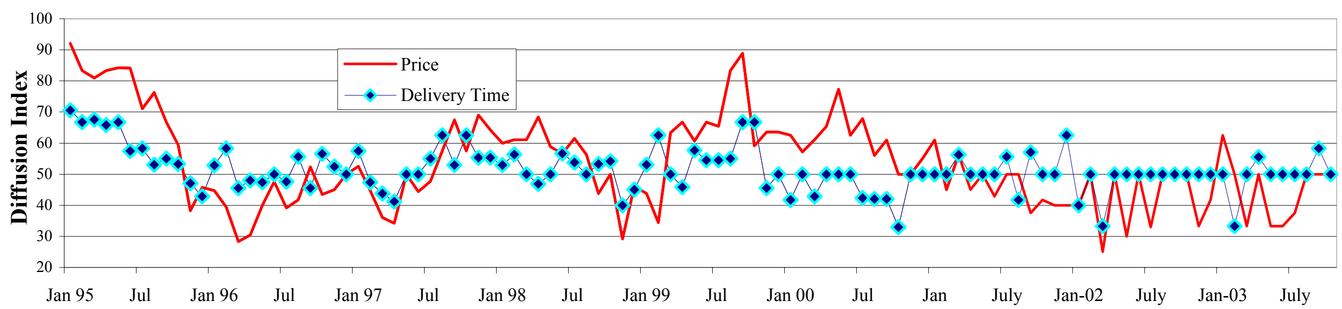
New York Business Conditions Index

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.

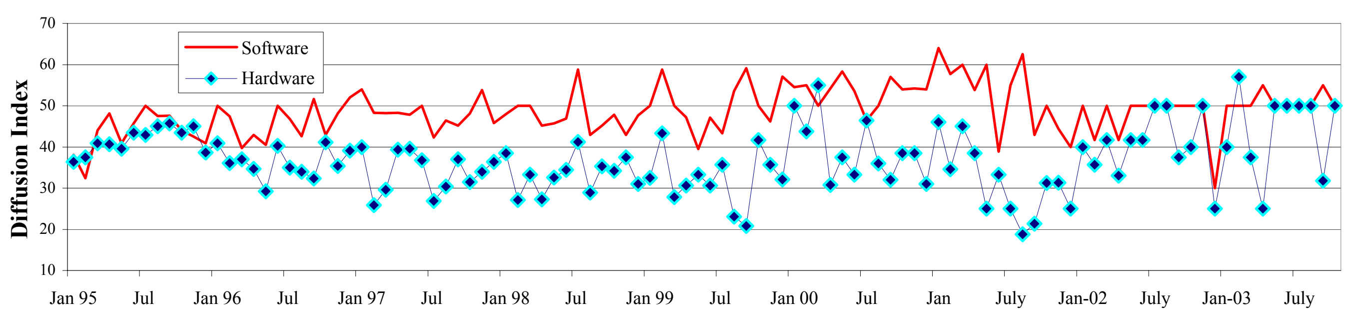
	Oct	Sep	Aug	Jul	Year ago Oct
NY BCI	226.4	222.2	221.7	224.9	253.2
% Change M/M	1.9	0.2	-1.4	-0.8	-0.3



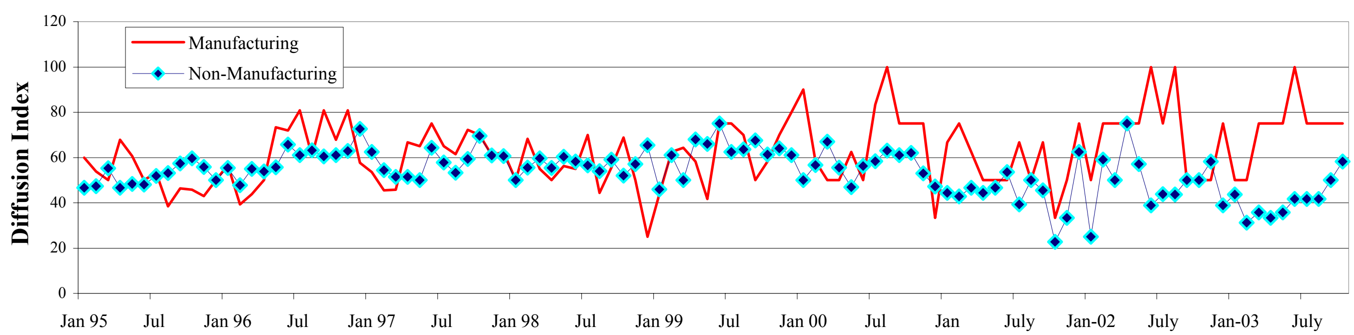
Corrugated Packaging Prices & Delivery Time



Computer Hardware & Software Prices



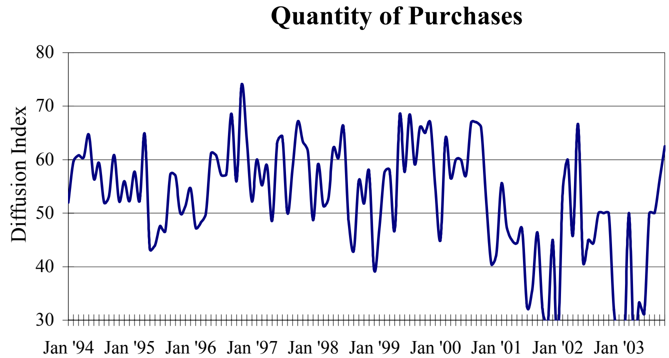
Current Conditions - Manufacturing vs. Non-Manufacturing Activity



Quantity of Purchases

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

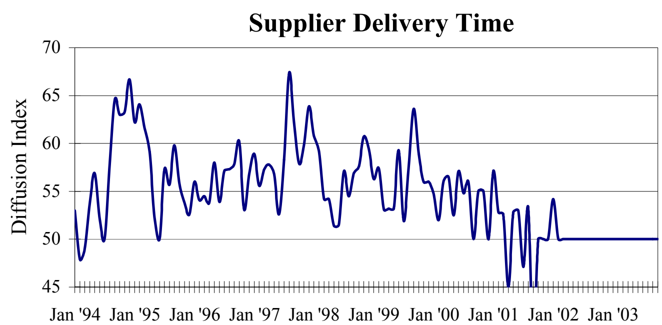
	Oct	Sep	Aug	Jul	Jun	Year ago Oct
Composite	62	56	50	50	31	50
Manufacturing	75	100	100	50	50	50
Non-Mfg.	58	41	41	50	25	50



Supplier Delivery Time

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

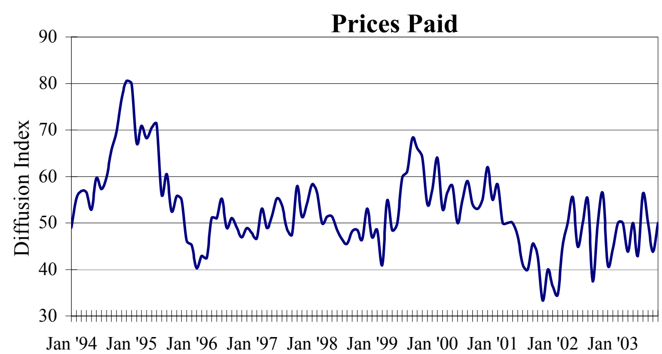
	Oct	Sep	Aug	Jul	Jun	Year ago Oct
Composite	50	50	50	50	50	50
Manufacturing	50	50	50	50	50	50
Non-Mfg.	50	50	50	50	50	50



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.

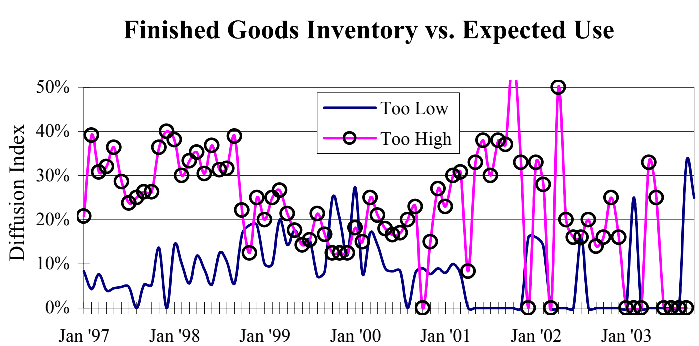
	Oct	Sep	Aug	Jul	Jun	Year ago Oct
Composite	50	43	50	56	42	50
Manufacturing	50	25	50	50	25	50
Non-Mfg.	50	50	50	38	50	50



Finished Goods Inventory Relative to Use

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

	Oct	Sep	Aug	Jul	Jun	Year ago Oct
Composite	37	33	50	50	50	58
% too high	0	0	0	0	0	16
Manufacturing	25	25	50	50	50	75
Non-Mfg.	50	50	50	50	50	50

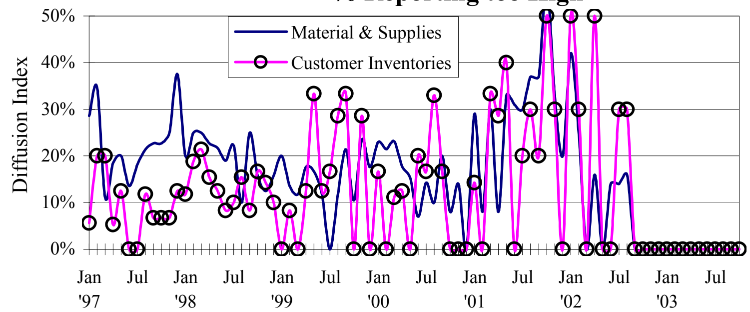


Raw Materials & Customer Inventory

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

	Oct	Sep	Aug	Jul	Jun	Year ago Oct
Materials & Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Customer Inventories	0.0	0.0	0.0	0.0	0.0	0.0

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



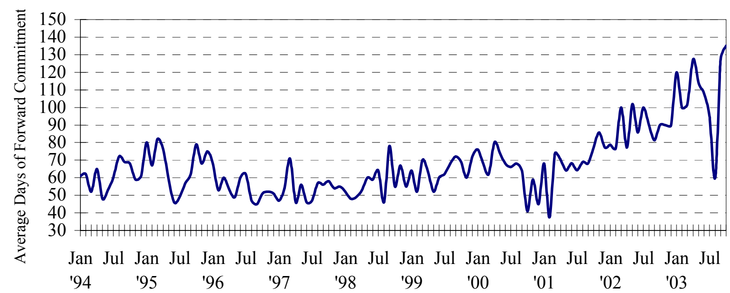
Buying Policy for Production Materials

The period of forward commitment for production materials.

	Oct	Sep	Aug	Jul	Jun	Year ago Oct
Average Days	135	127	60	95	108	90

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
135	0%	0%	75%	0%	0%	25%

Production Materials



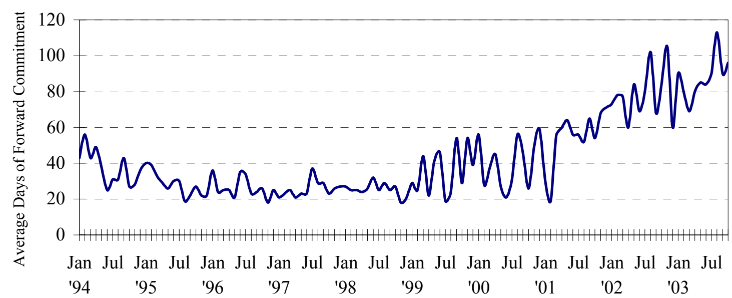
Buying Policy for MRO Supplies

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

	Oct	Sep	Aug	Jul	Jun	Year ago Oct
Average Days	96	90	113	90	84	84

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
96	20%	40%	20%	0%	0%	20%

MRO Supplies



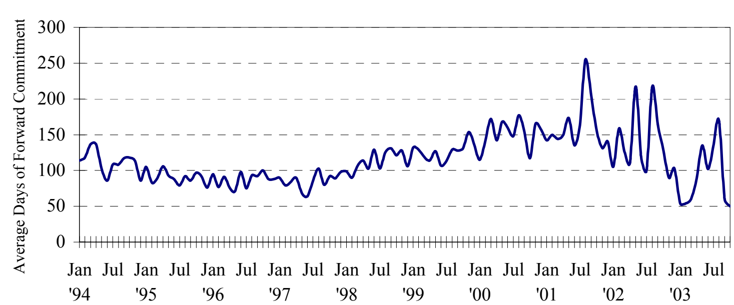
Buying Policy for Capital Expenditures

The period of forward commitment for capital goods.

	Oct	Sep	Aug	Jul	Jun	Year ago Oct
Average Days	50	60	170	135	102	127

Weighted Average Number of Days	Hand to Mouth	30 Days	60 Days	90 Days	6 Months	1 Year or More
50	33%	0%	33%	33%	0%	0%

Capital Equipment



Specific Price Changes & Supplier Deliveries

COMMODITIES		--- PRICE CHANGES --- Oct	Sep	Aug	--- VENDOR DELIVERIES --- Oct	Sep	Aug
Castings		50.0	50.0		50.0	66.7	
Chemicals		50.0	50.0	50.0	50.0	50.0	50.0
Computer Hardware		50.0	31.8	50.0	50.0	42.9	50.0
Computer Software	+++	50.0	55.0	50.0	50.0	41.7	50.0
Corrugated Packaging		50.0	50.0	50.0	62.5	58.3	50.0
Electrical Components		50.0	60.0	50.0		62.5	50.0
Energy	+++	50.0	87.5	100.0	50.0	50.0	50.0
Ferrous Metals			50.0				
Food Products		50.0	50.0	50.0	50.0	50.0	50.0
Glass			50.0				
Hydraulic Components			50.0			50.0	
Medical Supplies		50.0	66.7	50.0	50.0	75.0	50.0
Nonferrous Metals		66.6	50.0	75.0	50.0	50.0	50.0
Office Equipment (non-computer)		50.0	45.8	50.0	50.0	43.8	50.0
Office Supplies		50.0	50.0	50.0	50.0	50.0	50.0
Piping & Tubing		50.0	80.0	50.0	50.0	50.0	50.0
Plastics		50.0	50.0	50.0	50.0	50.0	50.0
Plating		50.0	55.0	50.0	50.0	50.0	50.0
Printing Paper	+++	50.0	50.0		50.0	50.0	33.3
Rubber Products			50.0				
Textile Products			75.0			50.0	
Wood & Pulp		50.0	50.0		50.0	75.0	
Services (Contracted)							
Cleaning	+++	50.0	57.4	50.0			
Construction	+++	50.0	58.3	50.0			
Painting			60.0				
Engineering			50.0				
Architectural	+++	50.0	57.1	50.0			
Temporary Personnel		50.0	50.0	50.0			
Computer Consultants		0.0	50.0	50.0			

"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

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 ISM 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.