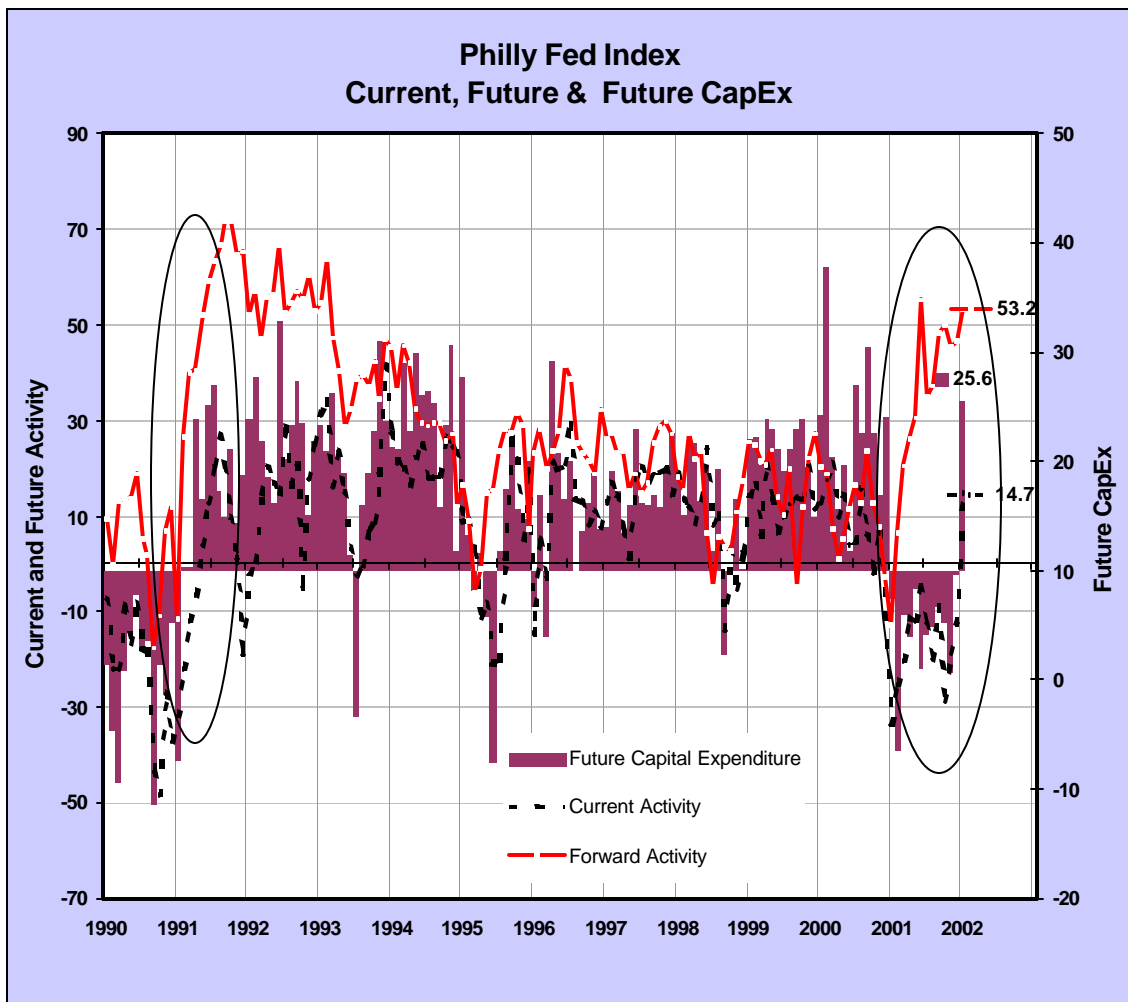




Philadelphia Fed Survey is a point of light: adding to the turnaround

Optimists received some light to steer by from the Philadelphia Fed Survey today. Particularly encouraging were the predictions for six months forward. The **Current Indicator** jumped from a revised reading of **-12.6 to 14.7** (finally above zero for the first time since November 2000). The **New Orders** index went positive (**12.6 as compared to -6.2 in December**). Similar results hold for current shipments, while improvements are shown in delivery times (although being negative, this means the rate of decline is slowing).



Labor demand is weak in the **Current Conditions** survey, but the **forward outlook for hiring is improving**.

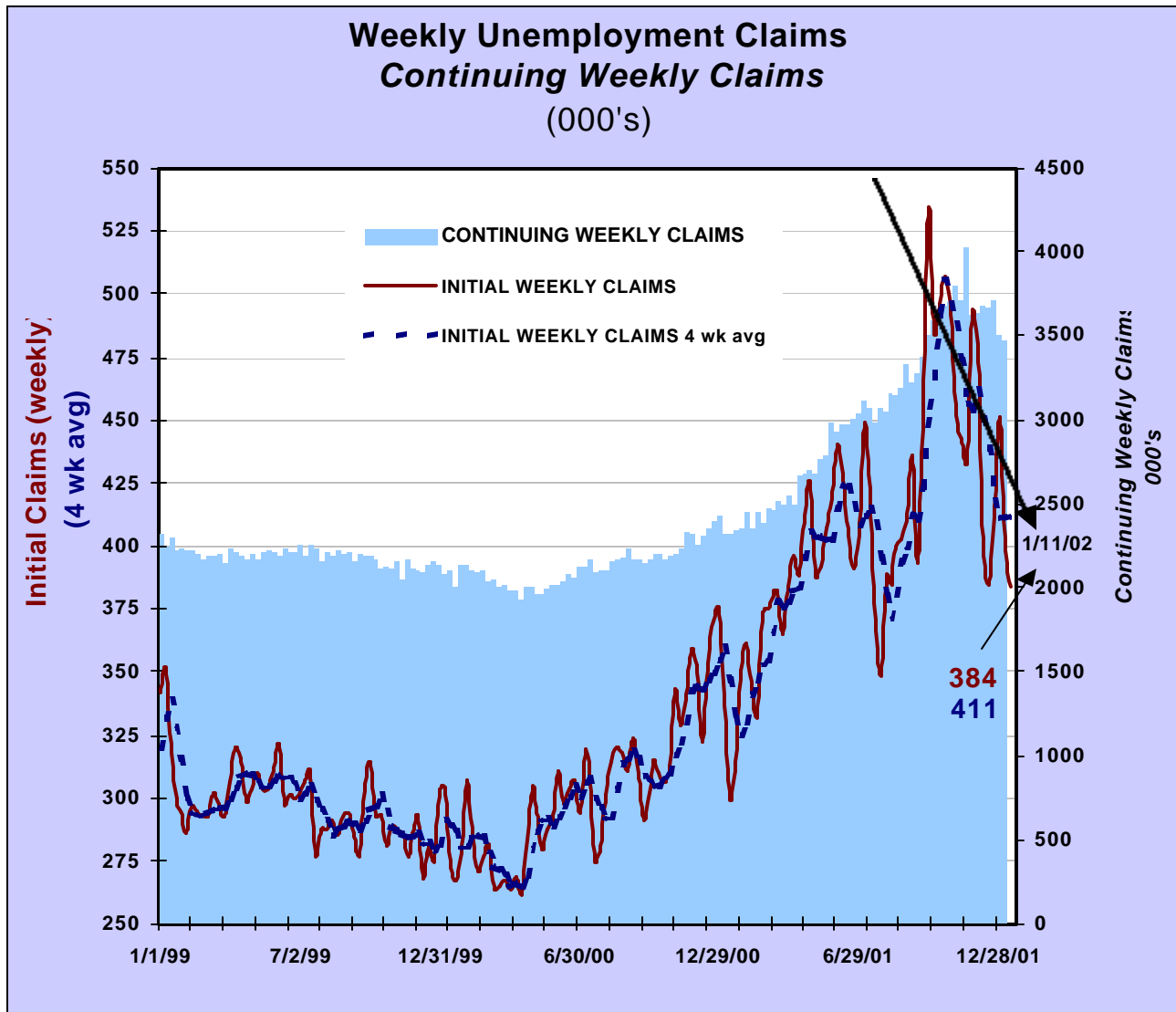
In a special set of questions, the PFRB asked about hiring in QI and QII 2002 as well as SH 2002. While **36.7%** of the respondents planned 'no change' in their workforce, and **13.3%** planned to 'reduce' their workforce, **50%** of the respondents indicated they would hire additional workers. The second quarter seemed to be the median of the positive hiring distribution, with **42%** of those planning to hire, intending to do so in QII.



ECOMENTARY™

29% of the 'positives' intend to hire in Q1 and 29% in the entire second half.

There is a point of light in the report---the positive outlook for capital expenditure. The attached graph shows the jump, and it is possible to draw some inferences from the experience of the last recession. Coming out of the 1990/91 recession, there was a large jump in the Forward Activity index and that was followed by robust capital expenditures. If that pattern repeats itself, some of the fog surrounding business expansion plans may lift. It will be interesting to see if next month's survey shows further improvement. If so, it would



mean that Q12002 will be the turnaround, at least in the Middle Atlantic region.

The second point of light today came from a more optimistic "initial UE claims" report that showed a continuation of more benign trends on initial unemployment claims. The 4 week average was 411,000 while



ECOMENTARY™

MAS 011702B

the 'spot' number fell to 384,000. We should expect that the actual unemployment rate will continue to rise into the early stages of recovery, but the national numbers today are consistent with many other data that are beginning to emerge, including the Philly Fed Survey data. We should expect that the ISM to improve in the February 1st report. Before that we will have the first report on Consumer Confidence from the University of Michigan. The December 2001 report showed an upturn. Since then, most other indicators have continued to add to the impression that Q1 2002 will be the turn around quarter.

University of Michigan Consumer Confidence Survey December 2001

Data: Bloomberg





ECOMENTARY™