



BUSINESS OUTLOOK

SURVEY

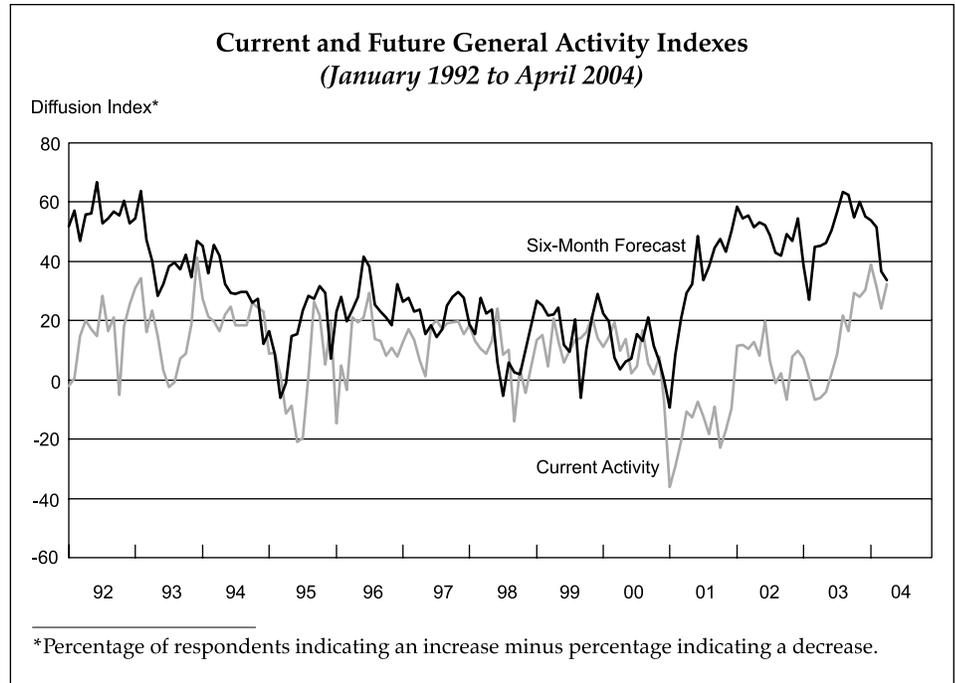
April 2004

Activity in the region's manufacturing sector continues to expand, according to firms surveyed for this month's *Business Outlook Survey*. Most of the survey's broad indicators of activity increased from their readings in March. Firms continue to report a rise in prices for inputs and for finished goods, although price indexes fell back from their recent highs. Expectations for overall growth over the next six months remain optimistic, and there is some modest improvement in expectations for capital spending this month.

Broad Indicators Show Improvement

The survey's broadest measure of manufacturing conditions, the diffusion index for current activity, increased from 24.2 to 32.5 this month. This marked the 11th consecutive month the index has been positive (see Chart). Both the new orders index and the shipments index also showed improvement this month. The new orders index rose four points, to 26.1, and the current shipments index increased five points, to 27.7. Indexes from the survey suggest that unfilled orders were mostly steady and delivery times were unchanged. The current inventories index showed a notable increase, rising from -12.8 in March to 11.7 this month, its highest reading in 16 months.

The overall improvement in manufacturing is also evident in firms' responses regarding employment. Although the manufacturing employment index was virtually unchanged this month, the index has been positive for seven consecutive months. Twenty-three percent of the manufacturers reported higher employment this month; 11 percent reported lower employment. Although the workweek index fell nearly eight points, it still indicates that overall work hours were higher this month. The index has remained positive for 10 consecutive months.



Firms Report Higher Costs

Firms reported higher costs again this month, but slightly less pressure on their own output prices. Over 57 percent of the firms surveyed reported higher input prices, and only 5 percent reported lower prices. Nevertheless, the prices paid diffusion index, now positive for nine consecutive months, fell a modest 1.5 points.

Twenty-eight percent of the firms reported that prices of their own manufactured goods were higher this month, while 14 percent reported lower prices. The current prices received index fell from 22.6 in March (its highest reading since January 1995) to 13.7 this month.

Firms Remain Generally Optimistic

Overall expectations for the next six months remain optimistic. While the diffusion index for future activity decreased from 36.7 to 33.6, it remains at a generally healthy

level. Some future indicators improved this month: the future new orders index increased seven points and the future shipments index increased three points. Firms expect unfilled orders to increase over the next six months and delivery times to increase modestly. The future inventory index suggests that little change in inventories is expected over the next six months.

Firms remain generally optimistic about employment increases over the next six months. The percentage of firms expecting to increase employment (40 percent) exceeded the percentage expecting to decrease employment (14 percent). The future employment diffusion index was unchanged, remaining at the relatively high reading of 26.7. The future capital spending index showed a rise of six points this month, to its highest reading in over four years.

Special questions this month asked firms about their experiences filling recent

Special Questions (April 2004)

1. Has your firm experienced problems filling job openings in the past three months because applicants did not have sufficient qualifications?

Yes	42.0%
No	36.1%
Have had no openings	21.9%
	100.0%

If yes, what are the three most significant skill categories that applicants are lacking:

	% of firms choosing specific skill category*
Skills in the use of production machines or tools	76.4%
Specific plant and system operator skills	50.9%
Basic skills (reading, writing, math)	40.0%
Supervisory, management, or admin. skills	23.6%
English language skills	14.5%
Computer skills	9.1%

*The totals sum to more than 100% because each participant could cite up to three categories.

2. In general, how has the gap between required skills and available skills changed over the following periods?

	Now compared to last year	Now compared to five years ago
Smaller	14.1%	20.5%
Same	77.4%	26.2%
Larger	8.5%	53.3%
	100.0%	100.0%

job openings (see Special Questions). Forty-two percent of the firms indicated that they had recently experienced problems filling job openings because applicants lacked qualifications. The most frequently cited skills that applicants lacked were skills in the use of production machines; specific plant operator skills; and basic skills in reading, writing, and math. Respondents were asked about whether the gap between required skills and available skills has changed over time. While only 8.5 percent of firms indicated that the gap is greater than it was last year, over 53 percent said it is greater than it was five years ago.

Summary

Most current indicators improved this month and continued to reflect growth in the region's manufacturing sector. Indicators for general activity, new orders, and shipments all rose from their readings in March. Although firms reported an increase in input prices again this month, price pressures for their own manufactured goods were less than reported in the previous month. The current employment index held steady this month but continues to reflect an improving employment situation. Firms remain generally optimistic about continued growth in manufacturing over the next six months.

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Summary of Returns

April 2004

	April vs. March					Six Months from Now vs. April				
	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	24.2	44.3	43.8	11.8	32.5	36.7	51.1	27.7	17.5	33.6
Company Business Indicators										
New Orders	21.9	41.8	42.5	15.7	26.1	33.6	55.2	26.4	14.4	40.8
Shipments	22.3	46.5	34.7	18.8	27.7	36.3	56.2	23.8	16.7	39.5
Unfilled Orders	8.8	20.6	55.6	23.1	-2.5	12.4	29.2	56.2	12.5	16.7
Delivery Times	19.0	12.8	71.8	12.0	0.8	7.5	20.0	63.5	14.0	6.0
Inventories	-12.8	29.6	52.4	17.9	11.7	-0.8	21.6	51.7	25.8	-4.2
Prices Paid	53.4	57.3	37.4	5.3	51.9	55.3	56.3	30.9	5.7	50.5
Prices Received	22.6	27.6	58.6	13.8	13.7	28.2	36.7	42.3	16.2	20.5
Number of Employees	12.3	23.1	65.7	10.9	12.2	26.7	40.3	43.0	13.6	26.7
Average Employee Workweek	17.9	20.5	69.4	10.1	10.4	12.7	32.3	44.7	16.6	15.7
Capital Expenditures	—	—	—	—	—	24.4	35.6	35.8	5.2	30.3

Notes:

- (1) Items may not add up to 100 percent because of omission of respondents.
- (2) All data seasonally adjusted.
- (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.
- (4) Survey results reflect data received through April 9, 2004.