



BUSINESS OUTLOOK SURVEY

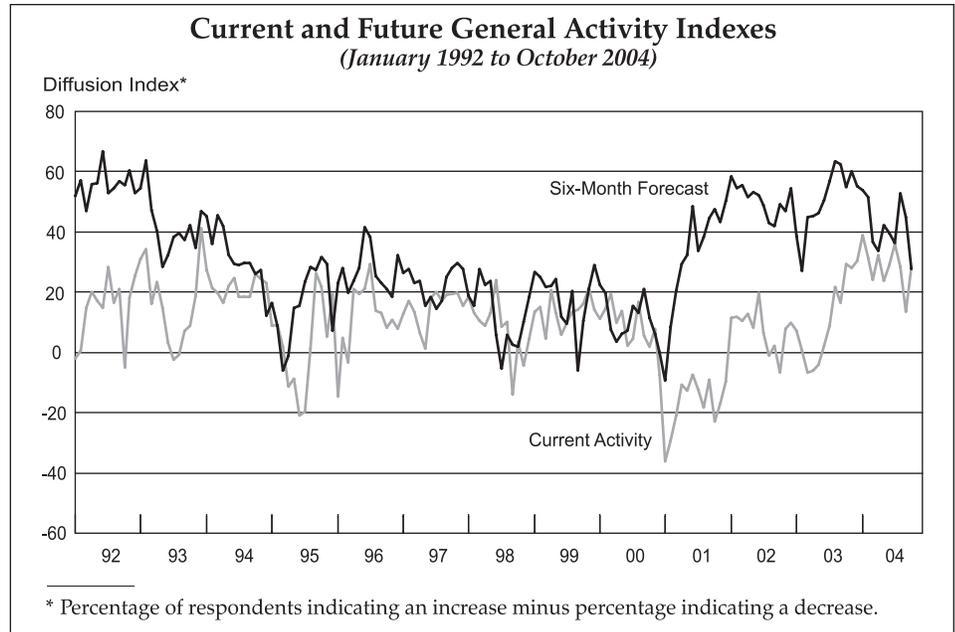
October 2004

Activity in the region's manufacturing sector continued to improve, according to firms surveyed for this month's *Business Outlook Survey*. About 40 percent of the firms reported increases in overall activity, new orders, and shipments in October. Employment indexes were positive again this month. Firms continued to report a rise in prices for inputs and finished goods, although the price index for finished goods fell slightly this month. The region's manufacturing executives were less optimistic about overall manufacturing growth over the next six months, although special questions in this month's survey suggest that fourth-quarter production plans have been boosted recently.

Current Indicators Reflect Growth

The diffusion index of current activity, the survey's measure of overall manufacturing conditions, increased from 13.4 in September to 28.5 (see Chart). The percentage of firms reporting increases in activity (40 percent) exceeded the percentage reporting decreases (11 percent) for the 17th consecutive month. The new orders index declined two points, but about 40 percent of the firms said new orders were higher this month. The index for current shipments increased six points this month. More firms reported declines in unfilled orders (24 percent) than reported increases (18 percent), and the unfilled orders index fell about nine points. Delivery times remain steady; about the same percentage of firms report shorter and longer delivery times (13 percent).

The overall improvement in manufacturing is evident in responses regarding employment. The percentage of firms reporting increased employment (22 percent) was higher than the percentage reporting decreased employment (8 percent). Still, the employment diffusion index, positive for 13 months, fell seven points. Similarly,



the average workweek index remained positive but declined two points.

Manufacturing Prices Continue to Rise

Firms continue to report higher production costs. Nearly 58 percent of the firms reported higher input prices in October, and less than 1 percent reported lower prices. The prices paid diffusion index was mostly unchanged this month. Still, the index is 26 points higher than at the end of last year. Nearly 36 percent of the firms reported higher prices for their own manufactured goods this month; only 3 percent reported lower prices. The prices received index fell, however, more than three points.

Future indicators for manufacturing prices were slightly higher than their levels in September. Over the next six months, a significant percentage of firms expect increases in input prices (58 percent) and increases in prices for their own manufactured goods (44 percent).

Six-Month Forecast Is Less Optimistic

Overall expectations for the next six months remain generally optimistic, although the index for future activity fell again this month. The future general activity index decreased from 44.9 in September to 27.6 in October, the lowest reading in 20 months (see Chart). Other broad future indicators showed more moderate declines (the future new orders index was virtually unchanged and the future shipments index fell three points). Firms expect unfilled orders to increase modestly over the next six months and delivery times to hold near their current levels. More firms expect inventories to decrease over the next six months (28 percent) than expect them to increase (19 percent).

Firms' expectations for future employment held steady this month. The future employment index remained near its reading in September with almost one-third of the firms expecting employment to rise over the next six months. Firms,

on balance, expect average work hours to increase as well. The future capital spending index increased four points, with about 30 percent expecting increases in capital spending in the next six months.

In special questions this month, firms were asked about their production plans for the rest of this year (see Special Questions). More firms indicated that they have recently increased rather than decreased plans for fourth-quarter production (38 percent versus 13 percent). Thirty-five percent of the firms said fourth-quarter

production would increase, compared with about 19 percent who said it would decrease. In response to the same question about inventories, percentages were almost evenly divided between those that said inventories would increase in the fourth quarter (32 percent) and those that said they would decrease (29 percent).

Summary

Most indicators of current activity improved this month and continue to reflect growth in the region's manufacturing sec-

tor. At least 40 percent of the firms reported increases in general activity, new orders, and shipments in October. Employment increased again this month, but fewer firms reported increases this month than last month. Indicators for manufacturing prices suggest that cost increases are continuing to place upward pressure on prices of manufactured goods. Although manufacturers are generally optimistic about growth in their sector, expectations for the next six months fell notably in October.

Special Questions (October 2004)			
1. In the past several months, have your plans for fourth-quarter production:		2. For the fourth quarter, production and inventories of finished goods are expected to:	
		Production	Inventories
Increased	38.1%	Increase more than 10%	5.2%
Decreased	13.4%	Increase 5-10%	17.5%
Stayed the same	45.4%	Increase less than 5%	12.4%
No response	3.1%	Decline less than 5%	4.1%
Total	100.0%	Decline 5-10%	11.3%
		Decline more than 10%	3.1%
		Stay at current levels	39.2%
		No response	7.2%
		Total	100.0%

BUSINESS OUTLOOK SURVEY										
Summary of Returns										
October 2004										
	Previous Diffusion Index	October vs. September				Six Months from Now vs. October				
		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?	13.4	39.6	49.4	11.0	28.5	44.9	40.1	45.7	12.5	27.6
Company Business Indicators										
New Orders	26.4	39.8	40.5	15.1	24.6	40.4	47.6	41.5	7.5	40.1
Shipments	22.4	41.5	42.2	13.4	28.2	37.2	44.4	42.5	9.7	34.7
Unfilled Orders	3.1	18.1	58.3	23.6	-5.4	6.7	21.8	60.4	13.7	8.1
Delivery Times	4.4	13.1	72.6	13.3	-0.2	0.5	16.5	62.3	16.7	-0.2
Inventories	3.7	22.4	58.0	19.3	3.1	-2.8	18.9	50.3	28.4	-9.5
Prices Paid	56.4	57.6	41.1	0.4	57.1	47.4	58.3	31.3	8.0	50.2
Prices Received	36.1	35.8	60.0	3.1	32.7	36.4	44.0	50.2	5.4	38.6
Number of Employees	21.5	21.7	70.6	7.7	14.1	23.4	32.3	58.6	9.1	23.2
Average Employee Workweek	8.3	21.2	64.1	14.7	6.5	14.4	25.9	61.0	9.5	16.3
Capital Expenditures	—	—	—	—	—	17.1	30.3	44.4	9.2	21.1

Notes:

- (1) Items may not add up to 100 percent because of omission by 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 October 15, 2004.