



BUSINESS OUTLOOK

SURVEY

October 2005

The pace of activity in the region's manufacturing sector picked up in October, according to firms polled for this month's survey. Indicators for general activity, shipments, new orders, and employment all improved from their readings in September. Firms continued to report a rise in prices for inputs, and more firms reported receiving higher prices for their own manufactured goods. Expectations for future growth recovered from the low readings recorded last month just after Hurricane Katrina hit the Gulf Coast.

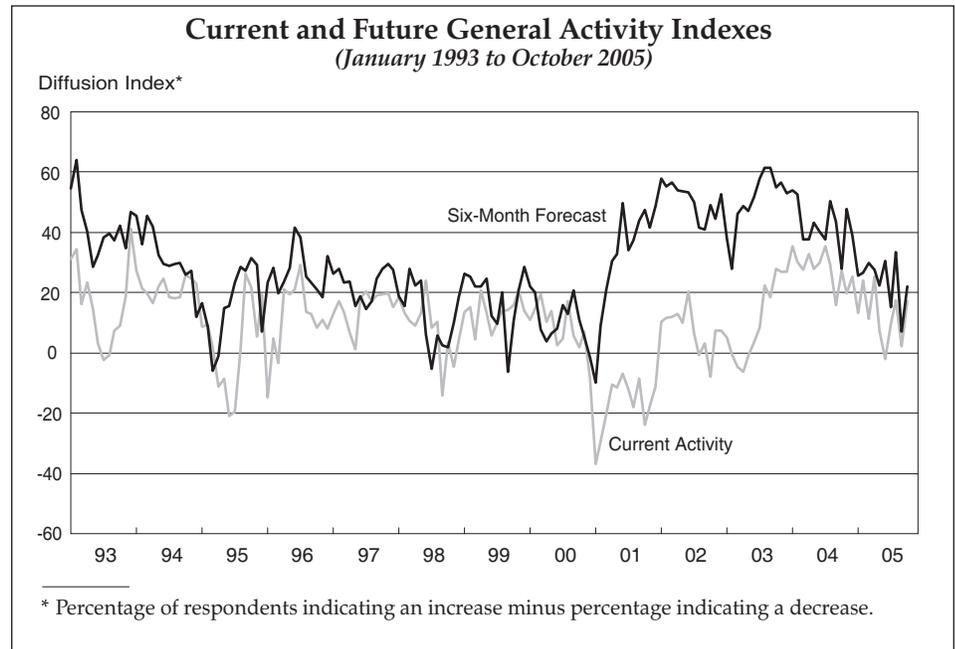
Current Indicators Rebound

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from 2.2 in September to 17.3 this month. The 15-point rise returns the index close to its level in August (see Chart). All of the other broad indicators improved substantially this month, alleviating concern about a pause in growth. The new orders index increased from a 29-month low of -0.5 in September, to 18.6 this month. The current shipments index rose six points. Both the unfilled orders and delivery time indexes were positive, following negative readings in September. On balance, more firms said inventories were lower this month than said they were higher.

The improvement in manufacturing activity is also evident in replies to questions about employment and hours worked. The current employment index rose 14 points, and the percentage of firms reporting increases in employment edged higher. The workweek index rebounded from a reading of 1.2 in September to 11.1 this month.

Higher Prices Reported

Firms continued to report higher production costs this month. The current prices paid index rose 15 points, following an



increase of 27 points in September, and is now at its highest reading since November 1980. Sixty-eight percent of the manufacturers reported higher prices for inputs, up from 57 percent last month. No firms reported declines in input prices.

Higher prices for final manufactured goods were also more widespread this month, suggesting that higher costs have been passed on to customers. Thirty-three percent of the firms reported higher prices for their goods, compared to 22 percent last month. The prices received index rose 24 points to its highest reading in 12 months. Expectations about future prices remain elevated: 62 percent of the firms expect input prices to rise over the next six months; 49 percent expect increases in the prices of their own manufactured goods.

Six-Month Indicators Also Rebound

Overall expectations for the next six

months rebounded in October, after falling sharply in September. The future general activity index rose from 7.0 to 22.0. The 15-point increase recovered some of the 26-point drop in September (see Chart). Other broad future indicators showed similar improvement: the future new orders index rose 17 points, and the future shipments index was up 16 points.

Firms' outlook for future employment held relatively steady this month, although businesses were more optimistic about expanding the work hours of existing employees. The future employment index, at 11.3, was virtually unchanged from September. Nineteen percent of the firms expect increases in employment over the next six months; 8 percent expect decreases. On balance, firms expect the average workweek to improve: the future workweek index increased eight points.

In a special question this month, firms

were asked about the impact of the Gulf Coast hurricanes on their manufacturing business (see Special Questions). Half the firms said they had not experienced a change in demand for their products or other related problems, and half said there had been some effect. Among those that reported some effect, the percentage citing an increase in demand (20 percent) was slightly higher than that citing a decrease (16 percent). A relatively small percentage of firms, however, indicated that the change in demand was significant (only 1.2 percent experienced a significant increase in demand; 2.3 percent experienced a significant decrease in demand). The most commonly cited post-hurricane effects were supply-related difficulties: transportation problems were cited by 28 percent of all firms; problems obtaining raw materials, by 21 percent; and problems obtaining energy products, by 13 percent.

Summary

Indicators of current activity point to an expansion of the region's manufacturing sectors, following little to no growth in the previous month. Indicators for general ac-

tivity, new orders, shipments, and employment all increased from their September readings. Firms continue to report higher prices for inputs, and more firms reported higher prices for their final manufactured goods. A sizable proportion of the region's manufacturing firms indicated that they were affected by the Gulf Coast disasters,

including some disruptions in transportation and delivery of materials. Expectations for growth over the next six months recovered from steep declines in September but remain somewhat below average levels for the year.

Special Questions (October 2005)

1. Have you experienced any change in demand or problems as a result of the Gulf Coast hurricanes?

Yes 50.0% No 50.0% Total 100.0%

If yes, check any that apply:

	% slight	% moderate	% significant	% of total respondents
Increase in demand	12.8	5.8	1.2	19.8
Decrease in demand	8.1	5.8	2.3	16.2
Other Effects:				
Transportation problems	2.3	15.1	10.4	27.8
Problems obtaining other materials	3.5	11.6	5.8	20.9
Problems obtaining energy products	3.5	4.7	4.7	12.9

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Summary of Returns October 2005

	Previous Diffusion Index	October vs. September			Diffusion Index	Previous Diffusion Index	Six Months from Now vs. October			Diffusion Index
		Increase	No Change	Decrease			Increase	No Change	Decrease	
What is your evaluation of the level of general business activity?	2.2	28.6	60.1	11.3	17.3	7.0	39.2	36.5	17.2	22.0
Company Business Indicators										
New Orders	-0.5	33.0	50.9	14.4	18.6	12.5	45.4	35.4	15.9	29.5
Shipments	13.2	29.0	60.4	9.5	19.5	10.4	44.7	34.3	17.9	26.8
Unfilled Orders	-10.9	15.4	70.0	14.6	0.8	-5.7	17.5	61.9	15.9	1.7
Delivery Times	-2.4	17.6	74.4	8.0	9.6	-6.5	19.7	60.3	14.7	5.0
Inventories	1.4	14.8	65.8	19.3	-4.5	-1.5	24.5	41.5	27.1	-2.5
Prices Paid	52.7	67.6	32.4	0.0	67.6	69.8	61.8	31.2	0.8	61.0
Prices Received	8.6	32.6	67.4	0.0	32.6	36.2	49.3	44.9	0.0	49.3
Number of Employees	2.7	19.4	78.1	2.4	17.0	11.4	18.9	70.6	7.6	11.3
Average Employee Workweek	1.2	19.3	72.5	8.2	11.1	-4.2	14.4	67.1	10.4	4.0
Capital Expenditures	—	—	—	—	—	12.9	21.1	47.0	3.0	18.1

Notes:

- (1) Items may not add up to 100 percent because of omission by respondents.
- (2) All data are 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 17, 2005.