



BUSINESS OUTLOOK SURVEY

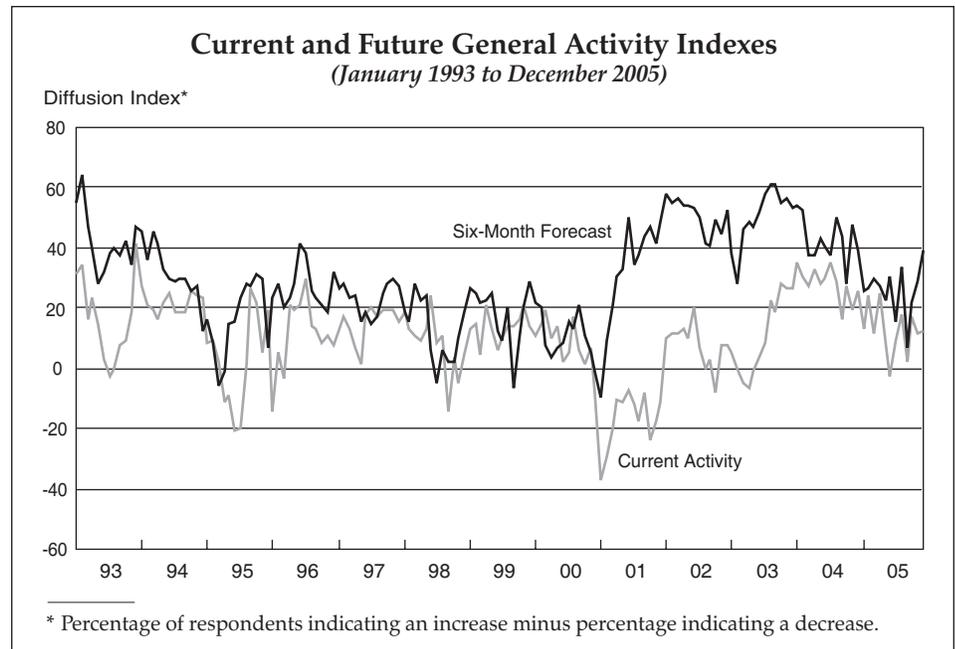
December 2005

Activity in the region's manufacturing sector continues to expand, according to firms surveyed for this month's *Business Outlook Survey*. The general activity index improved modestly this month; indicators for new orders, shipments, and employment were down from their readings last month, although they remain positive. Firms continued to report rising prices for inputs, and more than one-third reported receiving higher prices for their own manufactured goods. The region's manufacturing executives were somewhat more optimistic about future growth this month than in November.

Manufacturing Expansion Continues

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, rose slightly, from 11.5 in November to 12.6 this month (see Chart). Thirty-five percent of the firms reported increases in activity (up 12 points from November); 23 percent reported decreases. The new orders index decreased five points but remained positive for the third consecutive month. The shipments index also remained positive but declined 14 points.

Continued expansion in manufacturing is evident in replies to questions about employment and hours worked. The percentage of firms reporting increased employment (19 percent) was nearly the same as in November. The employment index, however, declined 10 points because the percentage of firms reporting lower employment



rose from 1 percent to 10 percent. On balance, the workweek was higher this month: More firms reported a longer workweek than reported a shorter one (20 percent versus 15 percent).

Input Price Pressures Moderate Slightly

Firms reported higher production costs again this month, although price pressures moderated slightly: 50 percent reported higher input prices; however, this was down from 58 percent in November and 68 percent in October. The prices paid index remains at a high level but fell eight points.

Higher prices for final manufactured goods remained relatively widespread again this month: 35 percent of the firms reported higher prices for

their goods, the same as in the previous month. The prices received index, at 30.5, was down two points from November.

Six-Month Forecasts Improve

Expectations for future manufacturing growth showed improvement again this month. The index for future activ-

Release date and time:
December 15, 2005, 12:00 noon E.T.

The survey's **annual historical revisions**, which incorporate new seasonal adjustment factors, will be released on Thursday, January 12, 2006, at noon E.T. The information will be made available at <http://www.philadelphiafed.org/econ/bos/boshistory.html>

ity increased from 29.2 in November to 39.0 this month, the highest reading in 12 months (see Chart). Other broad indicators of future growth showed similar increases: The future new orders index increased six points and the future shipments index increased five points. The future employment index rose notably this month (13 points): About 7 percent of firms expect to decrease payrolls but nearly five times as many anticipate increasing them (32 percent).

In a special question this month, firms were asked about planned capital spending for the upcoming year (see Special Question). For all of the categories of capital spending, more firms predicted higher expenditures next year than predicted lower. The largest percentage of the firms indicated increased spending for noncomputer equipment (38 percent) and for energy-saving investments (35 percent).

Special Question (December 2005)					
Do you expect the following 2006 capital expenditure categories to be higher than, lower than, or the same as the current year:					
	% Higher	% Same	% Lower	% No Response	% Total
Noncomputer equipment	37.8	31.1	25.7	5.4	100.0
Energy-saving investments	35.1	47.3	9.5	8.1	100.0
Software	29.7	41.9	21.6	6.8	100.0
Computers and related hardware	28.4	51.3	14.9	5.4	100.0
Structures	24.3	47.3	21.6	6.8	100.0

Summary

The survey continues to reflect growth in the region's manufacturing sector. Indicators for shipments, new orders, and employment remained positive but declined somewhat this month. Firms continued to report high-

er prices for inputs and manufactured goods, although a slight moderation in cost pressures was evident. Firms expect continued growth in their business over the next six months, and almost one-third said they will increase employment.

BUSINESS OUTLOOK SURVEY											
Summary of Returns											
December 2005											
	Previous Diffusion Index	December vs. November				Diffusion Index	Previous Diffusion Index	Six Months from Now vs. December			
		Increase	No Change	Decrease	Increase			No Change	Decrease	Diffusion Index	
What is your evaluation of the level of general business activity?	11.5	35.1	41.7	22.6	12.6	29.2	46.3	44.2	7.3	39.0	
Company Business Indicators											
New Orders	12.7	33.0	40.8	24.8	8.2	38.1	51.7	34.9	8.1	43.7	
Shipments	23.4	31.9	45.1	22.9	9.0	33.5	49.7	32.3	11.6	38.1	
Unfilled Orders	-7.8	22.4	53.3	21.3	1.2	10.6	25.0	55.6	13.1	11.9	
Delivery Times	9.0	16.5	63.1	18.9	-2.4	5.5	11.9	63.7	15.4	-3.6	
Inventories	-0.1	27.3	47.1	24.3	2.9	-2.1	28.7	47.1	16.8	11.9	
Prices Paid	56.8	49.5	47.2	0.5	49.0	57.5	55.5	31.9	7.4	48.1	
Prices Received	32.5	34.5	60.6	4.0	30.5	42.6	39.2	48.1	5.5	33.7	
Number of Employees	19.1	19.0	68.6	9.7	9.4	12.3	31.8	54.5	6.6	25.1	
Average Employee Workweek	8.7	19.8	63.2	15.0	4.8	11.8	19.1	64.8	9.8	9.3	
Capital Expenditures	—	—	—	—	—	24.2	28.8	32.4	12.3	16.6	

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 December 13, 2005.