



# BUSINESS OUTLOOK SURVEY

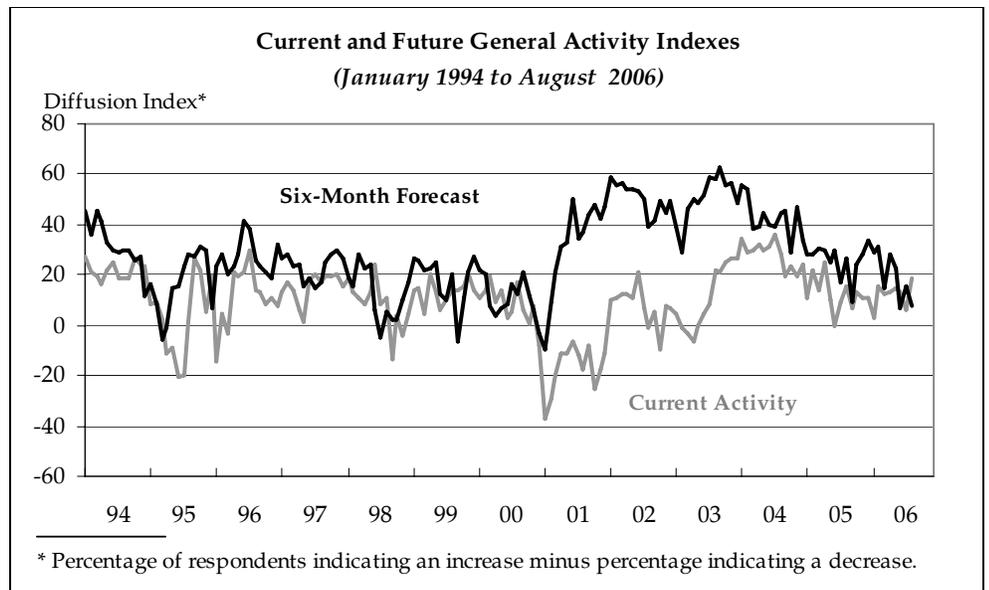
## August 2006

Activity in the region's manufacturing sector continued to expand, according to firms polled for this month's *Business Outlook Survey*. The indicator for general activity improved notably this month, and indicators for new orders, shipments, and average work hours were also up. Firms continued to report rising prices for inputs and their own manufactured goods. Despite the improvement in current activity, the region's manufacturing executives were less optimistic about future growth than last month.

### Continued Growth This Month

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from 6.0 in July to 18.5 this month (see Chart). The index rebounded from its six-month low reading in July to its highest level since April 2005. Thirty-five percent of the firms reported increased activity, while 17 percent reported decreased activity. The new orders and shipments indexes both increased this month, by six points and 12 points, respectively. Delivery times and unfilled orders were, on balance, steady this month.

Continued expansion in manufacturing is evident in replies to questions about employment and hours worked. The percentage of firms re-



porting increased employment (22 percent) was nearly the same as in July. The average workweek index, however, rose 15 points, from -2.8 in July to 12.4 this month.

This month's special questions focused on scheduled shutdowns and production slowdowns during the summer months (see Special Questions). Thirty percent of the firms responding indicated that they normally schedule shutdowns or production slowdowns during the summer months. Thirty-four percent said they have scheduled slowdowns this year.

Among the firms that scheduled slowdowns in July, the percentage of firms indicating that production decreases were larger than usual (41 percent) was substantially greater than the percentage indicating they

were less than usual (14 percent). For the month of August, this gap was narrower but still positive: 17 percent indicated that decreases were greater than usual; 7 percent indicated that they were less than usual.

### Cost Increases and Higher Prices Reported

Respondents reported increased costs for inputs again this month. Although the prices paid index remains at a relatively high level, it decreased five points. Forty-eight percent of the firms reported higher input prices, compared with 53 percent last month.

Twenty-five percent of the firms reported higher prices for final manufactured goods; 8 percent reported decreases. The prices received index, at 17.1, was unchanged this month.

## Six-Month Forecast Is Somewhat Less Optimistic

Expectations for future manufacturing growth showed some deterioration this month. The index for future activity fell from 15.4 in July to 7.4 this month (see Chart). Despite the decline, the percentage of firms expecting increases in activity over the next six months (32 percent) still exceeds the percentage expecting decreases (24 percent).

The future new orders index edged two points higher, and the future shipments index was virtually unchanged. The future employment index increased five points this month: 28 percent of the firms expect to increase employment over the next six months, and 10 percent expect to decrease it. The future capital spending index dipped 11 points this month to its lowest reading in four years. Only 21 percent of the firms indicated that they expect increases in capital

spending over the next six months, the lowest percentage since January 2003.

### Summary

Indicators of current activity point to a rebound from the slower growth reported in July. Indicators for general activity, new orders, shipments, and the average workweek were all higher this month. Nearly one-half of the manufacturing firms reported paying higher prices for inputs this month, and one-quarter reported receiving higher prices for their manufactured goods.

The special questions suggest that seasonal slowdowns in production have been greater than usual this summer. Indicators for the next six months suggest that firms are somewhat less optimistic about future growth than they were last month.

Special Questions (August 2006)		
1. Do you normally schedule plant shutdowns or production slowdowns during the summer months?		
Yes	30.2%	
No	64.0%	
No Response	5.8%	
<b>Total</b>	<b>100.0%</b>	
2. Did you schedule plant shutdowns or production slowdowns during the summer months this year?		
Yes	33.7%	
No	59.3%	
No Response	7.0%	
<b>Total</b>	<b>100.0%</b>	
If yes, which of the following best characterizes your situation for this July and August?		
Production decreases:	July	August
greater than usual	41.4%	17.2%
less than usual	13.8%	6.9%
about the same as usual	44.8%	41.4%
No Response	0.0%	34.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

<i><b>BUSINESS OUTLOOK SURVEY</b></i> <i><b>(August 2006)</b></i>	August vs. July					Six Months from Now vs. August				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<i>Diffusion Index</i>	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<i>Diffusion Index</i>
What is your evaluation of the level of general business activity?	<b>6.0</b>	35.4	47.7	16.9	<b>18.5</b>	<b>15.4</b>	31.7	33.7	24.3	<b>7.4</b>
Company Business Indicators										
New Orders	<b>10.1</b>	34.3	47.1	18.6	<b>15.7</b>	<b>19.6</b>	41.6	29.0	20.2	<b>21.4</b>
Shipments	<b>10.2</b>	37.8	44.9	15.5	<b>22.3</b>	<b>19.0</b>	36.9	34.3	17.8	<b>19.1</b>
Unfilled Orders	<b>-8.1</b>	25.7	48.5	25.0	<b>0.6</b>	<b>3.3</b>	20.2	52.7	19.5	<b>0.7</b>
Delivery Times	<b>-1.4</b>	18.5	65.0	16.5	<b>2.0</b>	<b>3.2</b>	15.5	67.0	10.0	<b>5.4</b>
Inventories	<b>-1.8</b>	27.1	51.5	21.5	<b>5.6</b>	<b>3.2</b>	20.5	51.7	22.6	<b>-2.0</b>
Prices Paid	<b>50.3</b>	47.8	47.5	2.6	<b>45.3</b>	<b>45.6</b>	57.1	27.9	9.3	<b>47.8</b>
Prices Received	<b>17.1</b>	24.5	65.9	7.5	<b>17.1</b>	<b>36.8</b>	38.7	42.3	10.2	<b>28.5</b>
Number of Employees	<b>12.8</b>	22.2	63.2	14.0	<b>8.2</b>	<b>12.3</b>	27.9	52.4	10.2	<b>17.7</b>
Average Employee Workweek	<b>-2.8</b>	24.5	60.9	12.2	<b>12.4</b>	<b>0.9</b>	18.3	57.6	15.0	<b>3.3</b>
Capital Expenditures	<b>--</b>	--	--	--	<b>--</b>	<b>17.1</b>	21.1	39.4	15.2	<b>5.9</b>

#### 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 August 15, 2006.