



# BUSINESS OUTLOOK SURVEY

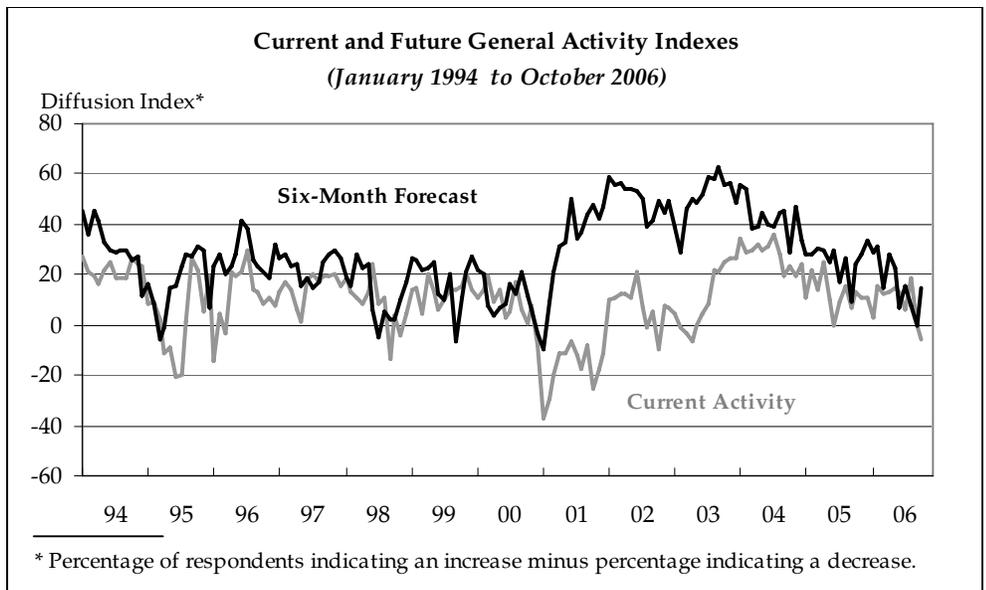
## October 2006

The pace of activity in the region's manufacturing sector was generally steady in October, according to firms surveyed for this month's *Business Outlook Survey*. Although the index for general activity was slightly negative this month, indicators for new orders, shipments, and employment suggest some growth. Firms continued to report a rise in prices for inputs, although these cost increases were less widespread than in previous surveys. The region's manufacturing executives were more optimistic about future activity, with most indicators rebounding from their six-year lows in September.

### Indicators Suggest Little Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, edged slightly lower, from -0.4 in September to -0.7 this month (see Chart). Twenty-two percent of the firms reported increased activity this month, but 23 percent reported decreased activity. The new orders and shipments indexes rebounded from their slightly negative readings in the previous month: The new orders index increased 15 points, and the shipments index increased 12 points. However, both the delivery time and unfilled orders indexes fell; the readings have been negative for two consecutive months.

Only moderate growth in manufacturing is suggested in replies about employment this month. The current employment index fell a modest one



point from its reading in September and remains at a relatively low level. Twenty-two percent of the firms reported increases in employment; 13 percent reported reductions. However, more firms reported decreases in the workweek (18 percent) than reported increases (16 percent), and the average workweek index fell seven points.

### Price Pressures Moderate

Respondents reported higher costs for inputs again this month, but increases were not as widespread as in previous surveys. The prices paid index remained at a relatively high reading of 32 but fell six points from September (the index has now fallen for three consecutive months). Forty-two percent of the firms reported higher input prices; 10 percent reported lower input prices.

Twenty-two percent of the firms reported higher prices for final manufactured goods, down slightly from 27 percent last month. The prices received index edged four points lower this month.

### Six-Month Forecast Rebounds

Expectations for future manufacturing growth improved notably this month, following a sharp decline last month. Indicators for future activity, new orders, shipments, and employment all rose from their September readings. The future general activity index increased from -0.2 to 16.7 (see Chart); paralleling this increase, the indexes for future new orders and shipments both rose about 20 points. The future employment index increased seven points.

<b>Special Questions (October 2006)</b>								
To what degree does each of the following pose a current problem for your firm?					Compared to last year:			
<i>Degree of concern decreases from 4 (major) to 1 (minor)</i>	Relatively Major Problem (4)			Relatively Minor Problem (1)		Greater %	Same %	Less %
	%	3 %	2 %	%	(1) %			
Finding Qualified Workers	36.9	31.0	17.9	14.3	43.2	7.4	49.4	
Labor Costs—Benefits	33.3	38.1	19.0	9.5	42.0	2.5	55.6	
Government Regulations	21.4	25.0	35.7	17.9	25.6	4.9	69.5	
Cost of Resources	18.1	39.8	36.1	6.0	35.0	6.3	58.8	
Taxes	17.3	32.1	39.5	11.1	21.8	0.0	78.2	
Foreign Competition	16.5	14.1	29.4	40.0	30.9	3.7	65.4	
Current Low Demand for Product	15.9	22.0	22.0	40.2	40.2	30.5	29.3	
High Rate of Capacity Utilization	10.0	20.0	32.5	37.5	13.9	21.5	64.6	
Labor Costs—Wages	7.1	31.0	42.9	19.0	21.0	4.9	74.1	
Availability of Resources	6.1	28.0	40.2	25.6	17.7	6.3	75.9	

### Special Questions

In special questions this month, firms were asked about the most serious problems facing their business (see Special Questions). The highest ranked problems (categories checked as relatively major) were finding qualified workers and the cost of benefits. The categories that were higher than when the question was asked last year were finding qualified workers, benefit costs, and low demand for products.

### Summary

Growth in the region's manufacturing sector is steady or up slightly this month. Although the indicator for general activity suggests no overall growth, indexes for new orders, shipments, and employment suggest a slight improvement from last month. According to responses from this month's survey, input price pressures are still strong but are less pervasive than in the previous month. The share

of firms reporting higher prices for their manufactured goods was down slightly. Indicators for the next six months suggest that firms are more confident about future conditions than they were in September.

<b>BUSINESS OUTLOOK SURVEY (October 2006)</b>	October vs. September					Six Months from Now vs. October				
	<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>-0.4</b>	22.4	54.3	23.1	<b>-0.7</b>	<b>-0.2</b>	35.2	42.9	18.5	<b>16.7</b>
Company Business Indicators										
New Orders	<b>-1.3</b>	34.7	41.0	21.3	<b>13.4</b>	<b>8.4</b>	45.3	37.2	16.1	<b>29.2</b>
Shipments	<b>-6.8</b>	32.3	40.8	27.0	<b>5.3</b>	<b>14.9</b>	48.7	35.9	14.3	<b>34.4</b>
Unfilled Orders	<b>-5.3</b>	12.1	64.7	23.2	<b>-11.1</b>	<b>-3.9</b>	17.8	60.1	17.1	<b>0.7</b>
Delivery Times	<b>-0.5</b>	9.9	69.6	19.3	<b>-9.4</b>	<b>-10.1</b>	14.5	67.2	13.1	<b>1.4</b>
Inventories	<b>4.2</b>	27.2	58.9	14.0	<b>13.2</b>	<b>-3.1</b>	15.6	57.2	24.5	<b>-8.8</b>
Prices Paid	<b>38.1</b>	41.8	48.5	9.8	<b>32.0</b>	<b>37.3</b>	42.0	44.7	8.2	<b>33.8</b>
Prices Received	<b>21.6</b>	21.6	73.9	3.9	<b>17.8</b>	<b>25.3</b>	31.7	60.1	8.2	<b>23.5</b>
Number of Employees	<b>10.7</b>	22.2	63.9	12.8	<b>9.4</b>	<b>5.7</b>	25.1	59.9	12.0	<b>13.1</b>
Average Employee Workweek	<b>5.4</b>	16.0	65.8	18.0	<b>-2.0</b>	<b>0.4</b>	15.7	70.8	7.9	<b>7.9</b>
Capital Expenditures	<b>--</b>	--	--	--	<b>--</b>	<b>17.2</b>	20.0	40.9	12.0	<b>8.0</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 October 16, 2006.