



# BUSINESS OUTLOOK

## SURVEY

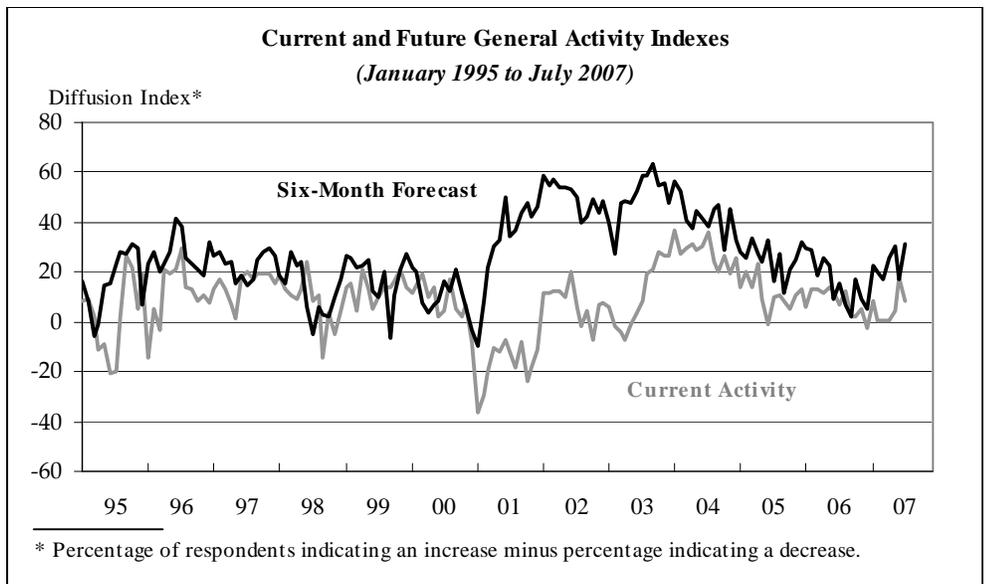
### July 2007

Activity in the region's manufacturing sector continued to expand in July but at a somewhat slower pace than in June. Indicators for general activity, new orders, and employment remained positive but fell somewhat from their higher readings in June. Manufacturing executives were notably more optimistic about future activity this month; all of the survey's future indicators increased significantly in July.

#### Growth Continues, But Several Indicators Decline

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased nine points from its relatively high reading in June (see Chart). Fifty-five percent of the firms reported no change in activity from June, but the percentage of firms reporting increases (27 percent) exceeded the percentage reporting decreases (18 percent). Demand for manufactured goods, as represented by the survey's new orders index, showed a similar dip, falling seven points from its relatively high reading last month. The current shipments index increased 15 points, however, to its highest reading since January. Indexes for delivery times and unfilled orders continued to inch higher, with the unfilled orders index turning positive for the first time in 15 months. The inventory index also increased nine points and registered its first positive reading since January.

There was little appreciable change in manufacturing employment in July. While 59 percent of the firms reported steady employment levels in July, the



percentage of firms reporting increases (22 percent) was only slightly higher than that of firms reporting decreases (18 percent). The current employment index, at 4.1, is almost two points lower than in June. The average workweek index suggests steady hours worked this month.

#### Higher Prices Still Evident

Respondents reported higher costs for inputs again this month. The prices paid index, however, fell nearly two points and has now edged lower in two consecutive months. Nevertheless, 37 percent of the firms reported higher input prices; 9 percent reported lower input prices. Twenty-one percent of the firms reported increases in the prices of their own manufactured goods this month. The prices received index was up for the second consecutive month, increasing four points, to 8.8.

#### Six-Month Forecasts Rebound

Expectations for manufacturing growth over the next six months showed notable improvement this month. The future general activity index increased from 16.7 in June to 30.4 in July, returning close to its reading in May (see Chart). The indexes for future new orders and shipments also increased, 24 points and 14 points, respectively. The future employment index rose 20 points, to its highest reading in more than three years. Thirty-six percent of the firms expect to increase employment over the next six months; 6 percent expect decreased employment.

In special questions this month, manufacturing firms were asked about their own industry's expected growth for the remainder of this year (see Special Questions). About twice as many firms expect increases in industry output in the second half as expect decreases: 49 percent indicated that their industry's output would

increase in the second half of 2007; 27 percent said it would decrease. Thirty-one percent indicated that the anticipated industry growth rate was an acceleration from the first half of the year; 21 percent said the anticipated growth rate was a deceleration.

### Summary

Indicators of current activity suggest continued growth of the region's manufacturing sector. Although indexes for general activity, new orders, and employment all remained positive, they were somewhat lower than in June. The shipments index improved significantly, however. Cost pressures continue to be reported by a significant share of the firms, and slightly more firms reported higher prices for their own manufactured goods this month. On balance, firms expect growth in their industries and their own manufacturing business over the next six months, and all of the survey's six-month indicators showed increased optimism among manufacturing executives this month.

### Special Questions (July 2007)

1. What annualized rate of growth do you anticipate for your industry's output in the second half of 2007?

	%	
Increase	48.7	
<i>Increase of 5% or more</i>		13.4
<i>Increase of 3-4%</i>		14.6
<i>Increase of 1-2%</i>		20.7
No change	24.4	
Decline	26.9	
<i>Decline of 1-2%</i>		11.0
<i>Decline of 3-4%</i>		4.9
<i>Decline of 5% or more</i>		11.0
Total	100.0	

2. Does this annualized growth represent an acceleration or deceleration of growth from the first half of 2007?

Acceleration	30.9
No change	48.1
Deceleration	21.0

<b>BUSINESS OUTLOOK SURVEY (July 2007)</b>	July vs. June					Six Months from Now vs. July				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>
What is your evaluation of the level of general business activity?	<b>18.0</b>	27.2	54.8	18.0	<b>9.2</b>	<b>16.7</b>	41.9	44.4	11.5	<b>30.4</b>
Company Business Indicators										
New Orders	<b>18.3</b>	31.0	49.2	19.8	<b>11.3</b>	<b>19.1</b>	50.0	36.6	7.1	<b>42.9</b>
Shipments	<b>5.0</b>	37.1	45.6	16.8	<b>20.3</b>	<b>29.3</b>	50.9	37.9	7.3	<b>43.6</b>
Unfilled Orders	<b>-0.7</b>	21.2	60.7	18.0	<b>3.2</b>	<b>5.1</b>	23.8	61.6	8.4	<b>15.5</b>
Delivery Times	<b>-3.5</b>	15.7	67.5	16.8	<b>-1.1</b>	<b>-2.4</b>	15.0	70.4	9.9	<b>5.2</b>
Inventories	<b>-8.2</b>	25.6	49.6	24.8	<b>0.8</b>	<b>-5.7</b>	23.3	48.5	26.5	<b>-3.2</b>
Prices Paid	<b>29.7</b>	36.9	54.3	8.8	<b>28.1</b>	<b>38.2</b>	51.4	32.6	8.9	<b>42.5</b>
Prices Received	<b>5.1</b>	21.2	64.4	12.5	<b>8.8</b>	<b>24.1</b>	36.1	46.9	11.1	<b>25.0</b>
Number of Employees	<b>5.6</b>	22.0	59.4	17.9	<b>4.1</b>	<b>10.4</b>	36.4	52.2	6.3	<b>30.1</b>
Average Employee Workweek	<b>-0.3</b>	18.9	62.2	18.9	<b>0.0</b>	<b>9.9</b>	24.1	64.9	2.7	<b>21.4</b>
Capital Expenditures	<b>--</b>	--	--	--	<b>--</b>	<b>18.0</b>	25.8	59.6	7.1	<b>18.8</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 July 16, 2007.