



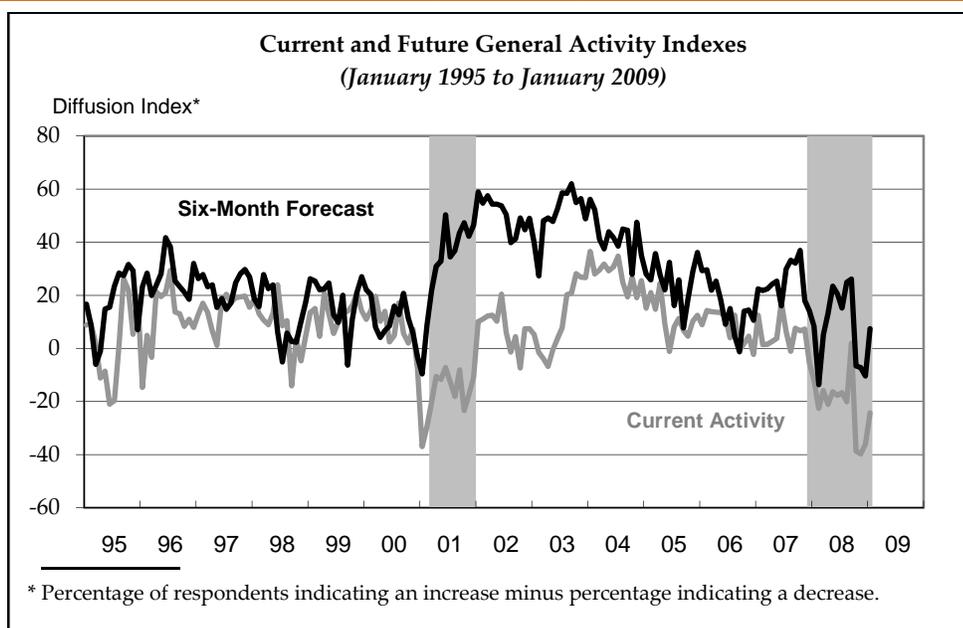
BUSINESS OUTLOOK SURVEY

January 2009

Conditions in the region's manufacturing sector continued to be depressed this month, according to firms polled for the January *Business Outlook Survey*. All of the survey's broad indicators for current activity remained negative, although some rose from the extremely low levels they had reached during the past few months. Employment losses, however, were reported to be more substantial. Firms continued to report declines in input prices and prices for their own manufactured goods. Most of the survey's indicators of future activity improved, suggesting that the region's manufacturing executives expect declines to bottom out over the next six months.

Indicators Show Continued Declines

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, remained negative, although it improved from a revised reading of -36.1 in December to -24.3 this month.* The index has been negative for 13 of the past 14 months, corresponding to the current recession (see Chart). A similar pattern of continued weakness was evident in most other broad indicators. The survey's new orders index remained very low, although it increased six points, to -22.3. Following an eight-year low reading in December, the survey's shipments index remained negative but improved 13 points. Indexes for unfilled orders and delivery times remained significantly negative this month and edged slightly lower, suggesting continued weakness.



The current employment index fell for the fourth consecutive month, dropping 10 points, to its second lowest reading since the survey began in 1968. The percentage of firms reporting a decrease in employment (48 percent) was greater than the percentage reporting an increase (9 percent). The average workweek index remained very low and virtually unchanged at -30.3.

Prices Continue to Decline

Consistent with overall weakness, firms reported widespread downward price pressures again this month. Thirty-eight percent of the firms reported paying lower prices for inputs; only 11 percent reported paying higher prices. The prices paid index edged slightly lower, to a record low of -27.0. Thirty-four percent of the firms reported lower prices for their own manufactured goods; 7

percent reported higher prices. The prices received index increased seven points, rising to -26.2 from a record low in December.

Six-Month Indicators Deteriorate

Area manufacturers' expectations for future conditions improved this month, following three months of decline. The future general activity index increased from -10.4 in December to 7.4 this month, its first positive

* The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on Thursday, January 8, 2009. Revisions for selected series from 2004 to 2008 are listed on pages 3-4 of this release. The full set of revised historical data is available at: <http://philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/historical-data/revisions/historical-revisions-2009.cfm>.

reading since September 2008 (see Chart). The indexes for future new orders and shipments also returned to positive territory this month, increasing 16 points and five points, respectively. On balance, firms still expect decreases in employment over the next six months: The future employment index fell two points and has been negative for four consecutive months. The future workweek index increased eight points but remained negative for the fourth consecutive month.

In this month's special questions, manufacturers were asked about problems related to the recent disorder in credit markets (see Special Questions). Firms were also asked about the impact of credit constraints on their production and inventories and about their planned capital spending over the next six to 12 months. Nearly 12 percent of the firms polled indicated that they had experienced problems obtaining credit to finance ongoing activities since October (14 percent reported problems obtaining credit in October when the same questions were asked). However, a larger percentage of firms (38

percent) indicated that their customers were having such problems. Twenty percent of the firms said the credit-related problems had affected their own levels of production, and 7 percent reported that adverse conditions had influenced inventory levels. Firms were also asked if changes in financial conditions had prompted them to revise planned spending on plant or equipment over the next six to 12 months. Forty-one percent of the firms said they had revised their plans substantially downward (only 14 percent indicated substantial reductions in October). The number of firms that attributed the changes to low expected growth of sales and low capacity utilization was significantly higher than in October.

Summary

According to respondents to the January survey, manufacturing in the region experienced continuing declines this month. However, indicators for general activity, new orders, and shipments suggested that the weakening was less severe than in December. Respondents reported continued

declines in employment. Firms also reported lower prices for inputs and for their own manufactured products in January. Some indicators for future business conditions improved from their low readings over the past several months, suggesting that the region's manufacturing executives expect some improvement in conditions during the first half of this year. However, firms expect employment losses to continue over the next six months.

Released: January 15, 2009, 10:00 a.m. ET
The February *Business Outlook Survey* will be released on Thursday, February 19, at 10 a.m. ET.

BUSINESS OUTLOOK SURVEY January 2009	January vs. December					Six Months from Now vs. January				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	-36.1	18.6	34.8	42.9	-24.3	-10.4	34.6	31.0	27.2	7.4
Company Business Indicators										
New Orders	-28.2	20.4	36.9	42.7	-22.3	-4.1	38.2	29.0	26.8	11.4
Shipments	-29.7	21.3	37.5	37.9	-16.7	-1.0	35.7	28.0	31.9	3.9
Unfilled Orders	-30.4	9.6	47.8	40.7	-31.1	-14.2	17.3	49.0	29.3	-12.0
Delivery Times	-22.7	6.8	58.5	33.3	-26.5	-19.3	7.8	65.4	22.4	-14.7
Inventories	-33.7	14.9	34.7	49.5	-34.6	-46.0	13.8	43.3	37.4	-23.6
Prices Paid	-25.5	11.1	50.8	38.1	-27.0	-20.5	24.8	48.0	21.2	3.7
Prices Received	-32.8	7.4	57.3	33.6	-26.2	-14.8	14.2	54.7	23.9	-9.7
Number of Employees	-28.6	8.9	42.3	47.8	-39.0	-27.6	7.4	51.9	36.7	-29.3
Average Employee Workweek	-31.6	3.9	56.2	34.2	-30.3	-21.4	12.3	53.9	25.3	-13.0
Capital Expenditures	--	--	--	--	--	-18.4	14.3	41.2	30.7	-16.4

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 January 13, 2009.

Special Questions (January 2009)				
1. Since October, have either your firm or your customers experienced problems obtaining credit to finance ongoing activities?				
	January 2009		October 2008	
	Your firm	Your customers	Your firm	Your customers
Yes	11.8%	37.6%	13.8%	29.9%
No	80.0%	22.4%	77.7%	30.9%
No response	8.2%	40.0%	8.5%	39.2%
Total	100.0%	100.0%	100.0%	100.0%
2. If yes, have the problems affected levels of your own production or inventories?				
	January 2009		October 2008	
Production	20.0%		18.1%	
Inventories	7.1%		6.4%	
Other	7.1%		3.2%	
3. Have recent changes in financial conditions prompted your firm to revise its planned spending on new plant or equipment over the next six to 12 months?*				
	January 2009		October 2008	
Substantial downward revision	41.3%		14.5%	
Small downward revision	27.5%		27.8%	
No change	26.2%		46.4%	
Small upward revision	2.5%		4.1%	
Substantial upward revision	2.5%		3.1%	
* In January 2009, firms were also asked if some projects were delayed until later in the year (16.5 percent) and/or some projects postponed indefinitely (10.6 percent).				

4. If your firm plans to decrease spending on new plant and equipment, what are the major factors behind your plan?***		
	January 2009	October 2008
Expected growth of sales is low	54.1%	46.4%
Capacity utilization is currently low	50.6%	33.0%
Limited need to replace information technology	23.5%	16.5%
Limited need to replace other capital goods	32.9%	25.8%
Cost or availability of credit	7.1%	13.4%
Firm's cash flow or balance sheet position has not improved	30.6%	17.5%
Outsourcing	1.2%	2.1%
Other factors	8.2%	6.2%
***These numbers may not add to 100 percent because respondents can check more than one option.		

Business Outlook Survey Selected Revised Diffusion Indexes

(2004 - 2008)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current General Activity												
2004	36.5	28	29.5	31.7	29.2	30.7	34.7	24.9	19.4	26.7	19.1	25.5
2005	15.1	21	14.7	24.6	9.3	-1.2	8.1	11.2	6.8	4.6	10.2	12.4
2006	8.9	14.2	13.8	13.6	13.5	11.8	4	12.5	-0.7	1.8	4.6	-2.3
2007	12.5	1.4	1.5	2.6	3.7	17.3	6.3	-1.1	7.6	6.6	7.3	-5.4
2008	-12	-22.6	-15.9	-21.1	-16.3	-17.7	-16.7	-20.1	1.9	-38.7	-39.8	-36.1
Current New Orders												
2004	33.1	27.3	26.1	25.5	22.8	28.6	35.3	18.9	26.3	20.2	22.1	20.6
2005	11.2	14	15.6	20.1	15.4	4.9	5.7	14	-1.6	20.2	14.9	6.9
2006	13.5	15.6	21.6	13.3	1	17.5	8	10.4	-3.6	11.6	1.3	-1.8
2007	4.3	3.2	2.6	4.8	5.2	18.5	9.3	3.6	11	3.9	6.7	9.7
2008	-12.5	-9.1	-8.2	-15.2	-6	-13	-12.8	-15.2	3.8	-30.6	-29.3	-28.2
Current Shipments												
2004	29.9	19.5	25.8	28.2	26.5	32	39.5	30.3	26.2	26	20.4	21.9
2005	16.4	22.8	16.1	30.1	18.5	11.3	11.6	13.7	13.6	20.4	22.3	3
2006	18.6	24.5	24	19.5	13.1	20.7	10.6	19	-8.3	8.5	8.7	11.3
2007	23.3	3.3	7.7	6.5	8.1	7.9	20.5	10.3	11.4	-0.5	5.7	15.4
2008	-1.7	-10.3	-5.5	-6.2	0.5	-5.9	-6	-6.1	-1.3	-17.6	-19.3	-29.7

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current Unfilled Orders												
2004	11.4	6.8	10.4	1.2	10.4	12.5	16.7	0.8	3.9	-1.7	-1.3	2.9
2005	-4.1	-2.7	0	-2.9	-3.6	-16.6	-10.2	2.7	-10.4	-2.1	-7.4	0.8
2006	0.9	8.6	8.7	6.3	-2.7	-1.3	-8.7	-4.3	-6.8	-9	-4.3	-18.1
2007	-14.7	-12.2	-15.4	-13.2	-8.9	-1.4	1.4	-5.4	-5.2	-5.8	-8.3	-3.3
2008	-6.4	-11	-14.7	-16.3	-17.9	-11.4	-18	-14.8	-14.1	-26.5	-28.1	-30.4
Current Delivery Times												
2004	-0.5	4.5	16.3	0.3	9	7.4	15.1	-7.1	4.1	1.9	-4.8	1.2
2005	-2.5	4	2.6	4.6	0.1	-10.6	-1.8	-0.8	-1.6	-0.5	6.5	0.3
2006	7.5	6.9	4.7	-2.4	9.3	0.7	-2	0.4	-1.2	-5.1	2.3	-6
2007	-7.8	-6.3	-10.5	-11.3	-7.8	-2.8	-1.7	-3.2	-8.2	1.3	-11.9	-2.3
2008	-4.3	-5.8	-7.4	2.7	-12.8	-7.3	-10.8	-10.7	-7.9	-19.3	-20.7	-22.7
Current Inventories												
2004	-2.9	3.7	-7.9	7.4	7.2	15.6	4.8	2.2	-0.2	1	-3.1	-5.4
2005	-4	-4.8	-1.3	1.1	0.7	0.6	-8.9	-7.5	-2.7	-2.5	1.3	2.2
2006	6.2	10.2	12.7	-7.8	-3	-1.3	0	7	2	10.5	2.2	-3.1
2007	-0.3	-0.7	-2.6	-0.5	-4.2	-5.4	0.4	-5.2	0.9	-15.7	-0.9	-9.1
2008	-11.4	-11.5	-12.8	-22.8	-11.8	-10.1	-9.2	-9.9	-23.9	-22.9	-20.3	-33.7
Current Prices Paid												
2004	33.7	44.7	54	50.9	55.7	53.9	51.9	55.8	54.8	55.1	51.7	52.3
2005	62.3	47.2	35.7	51	29.1	25.3	27.8	26.6	50.9	23.6	53.1	49
2006	42.9	35.7	25.7	32.6	52.1	44.3	45.4	43.9	38.9	30.6	24.7	23.6
2007	14.5	20.7	26.2	27.5	28.6	22.7	22.2	11.9	24.6	38.4	38	40.8
2008	49.8	49.5	53.4	53.8	52.2	63.4	71.3	53	32.5	10.2	-26.6	-25.5
Current Prices Received												
2004	9.9	17.6	21	13.6	28.4	31.1	34.6	33.5	32.7	32.7	29.6	19.6
2005	23.5	23.1	18.3	27	17.4	12.5	12.3	2.7	5.9	13.3	32.8	28.5
2006	18.9	17.1	16.6	15.2	12.6	16.3	16.5	16.6	19	17.8	8.9	9.9
2007	9.5	8.3	17.9	4.8	3.8	5.6	7.2	5.7	2	12.8	21	18
2008	30.5	23.5	22.7	29.7	30.7	29.3	27.9	25.1	15.1	5	-11.3	-32.8
Current Employment												
2004	15.5	12.4	14.1	12.2	22.5	19	22.6	19.5	23.4	13.7	15.2	12.7
2005	16.7	12.1	13.1	15	8.2	8.3	2.8	5	2.8	14.3	19.2	8.5
2006	10.9	11.7	8.5	18.7	2.3	7.9	12.8	4.9	8.8	8.1	3.8	9.4
2007	7	1	4.7	4.4	12	5.1	5.7	17	5.5	9.8	6	3.3
2008	-0.1	2.3	-2.8	-9.5	0.3	-7.6	-7.1	-4.6	-3.2	-19.2	-23.8	-28.6
Current Average Workweek												
2004	10.5	19.3	20.7	7.3	15.5	14	12.7	8.1	9.1	5.5	5.4	17.5
2005	7	7.6	9.1	14.1	0	4.1	6.4	0.9	0.3	-1.7	13.2	5.2
2006	7	8.2	8.7	5.8	10.9	8.1	-0.5	11.4	1.9	-1.2	3.3	-2.5
2007	1.3	-11.7	-2.6	3	-4.2	-0.6	2.8	12.5	7.2	4.5	2.7	7.1
2008	-14.7	-2.9	-7.9	-11.9	-5.5	-8.8	-10.6	-12.9	-10.5	-19.6	-21.5	-31.6