



BUSINESS OUTLOOK SURVEY

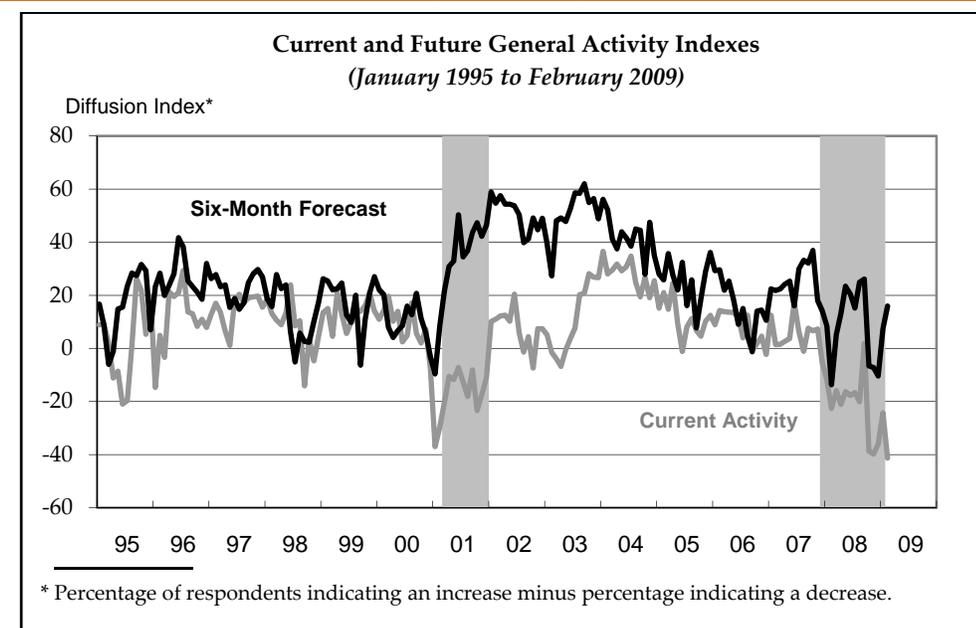
February 2009

Conditions in the region's manufacturing sector continued to deteriorate this month, according to firms polled for the February *Business Outlook Survey*. All of the survey's broad indicators for current activity remained negative and fell from their already low levels in January. Employment losses were more substantial this month, and nearly half of the surveyed firms reported declines in both employment and average hours worked. 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, continuing to suggest that the region's manufacturing executives expect declines to bottom out over the next six months.

Indicators Show Larger Declines

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, declined from a reading of -24.3 in January to -41.3 this month, its lowest reading since October 1990. The index has been negative for 14 of the past 15 months, a period that corresponds to the current recession (see Chart). Weakening conditions were evident in all of the broad indicators this month. The survey's new orders index declined eight points, and the survey's shipments index fell markedly (16 points) to its lowest reading since the survey began in 1968. Unfilled orders and delivery times remained significantly negative this month and edged slightly lower than in January, suggesting further weakening.

In special questions this month, firms were asked about their current inventory situation. Nearly 44 percent of the firms



indicated that their inventories were too high and were expected to decrease during the first quarter; 67 percent said their customers' inventory plans had also decreased. Firms were asked whether inventory changes in recent months were intended or unintended and what factors were most important in explaining the changes. Both actual sales and expected sales were categorized as "very important" (37 percent and 28 percent of firms, respectively). About 20 percent of the firms cited unexpected changes in sales as very important. Fewer firms cited expected changes in prices and changes in credit terms or availability as factors.

The current employment index fell for the fifth consecutive month, dropping seven points, to -45.8, its lowest reading in the history of the survey. The percentage of firms reporting a decrease in employment (48 percent) was greater than the percentage reporting an increase (2 percent). The average workweek index deteriorated significantly,

declining from -30.3 to -44.9. Forty-eight percent of the firms reduced work hours this month.

Prices Continue to Decline

For the fourth consecutive month, firms reported declines in the prices paid for inputs and the prices received for their own manufactured goods. Thirty-two percent of the firms reported paying lower prices for inputs; 18 percent reported paying higher prices. The prices paid index increased from a record low reading of -27.0 in January to -13.7 in February. Reflecting weak conditions, 31 percent of the firms reported lower prices for their own manufactured goods; only 4 percent reported higher prices this month. The prices received index remained negative for the fourth consecutive month and edged two points lower.

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

Six-Month Indicators Improve

Expectations for future conditions improved for the second consecutive month, suggesting that the current slump will bottom out in the next six months. The future general activity index increased from 7.4 in January to 15.9 this month, its second positive reading since September 2008 (see Chart). The indexes for future new orders and shipments also improved, increasing 11 points and 16 points, respectively. On balance, firms still expect decreases in employment over the next six months: The future employment index remained negative but increased 12 points from its low reading in January. The index has been negative for five consecutive months. Twenty-seven percent of the firms expect employment to decline further over the next six months; only 10 percent expect employment to increase.

Summary

According to respondents to the February survey, activity in the region's manufacturing sector continued to decline this month. Indicators for general activity, new

orders, shipments, and employment suggested that declines were more broad-based than in January. Nearly half of the firms reported declines in both employment and hours worked in February. Firms also reported lower prices for inputs and for their own manufactured products this month.

Most indicators for future business conditions improved from January, suggesting that the region's manufacturing executives expect some recovery in manufacturing over the next six months. However, firms expect employment losses to continue over the next six months.

Special Questions

1. Choose the statement that best characterizes your current inventory situation:

Too high and expected to decrease in first quarter	43.9%
About right for current economic conditions	43.9%
Too high and expected to increase in first quarter	6.1%

2. Over the past several months did your customers' inventory plans:

Decrease: 67.1% Increase: 3.7% No change: 18.3%

3. How important are the following factors in explaining recent changes in your physical inventories?

	Very Important	Important	Not Important
Intended due to actual sales	36.6	28.1	19.5
Intended because of expected sales	28.1	45.1	6.1
Unintended because of unexpected sales	19.5	32.9	24.4
Intended because of expected price changes	18.3	26.8	31.7
Intended because of changes in credit terms or avail.	6.1	18.3	48.8

Note: Percentages may not add to 100% because of no responses for some questions.

BUSINESS OUTLOOK SURVEY February 2009	February vs. January					Six Months from Now vs. February				
	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	-24.3	10.2	38.3	51.5	-41.3	7.4	38.9	33.4	23.0	15.9
Company Business Indicators										
New Orders	-22.3	20.1	28.2	50.4	-30.3	11.4	46.4	28.3	24.2	22.2
Shipments	-16.7	21.1	25.4	53.5	-32.4	3.9	43.8	29.4	24.2	19.6
Unfilled Orders	-31.1	9.0	49.9	41.1	-32.1	-12.0	22.8	57.1	15.5	7.3
Delivery Times	-26.5	5.1	60.5	34.3	-29.2	-14.7	7.8	74.2	13.8	-6.0
Inventories	-34.6	17.3	40.8	41.6	-24.3	-23.6	15.0	48.9	30.5	-15.5
Prices Paid	-27.0	18.1	48.3	31.8	-13.7	3.7	17.9	61.7	14.9	2.9
Prices Received	-26.2	3.6	63.3	31.4	-27.8	-9.7	12.0	57.6	25.4	-13.4
Number of Employees	-39.0	1.8	49.3	47.6	-45.8	-29.3	10.1	62.9	27.0	-16.9
Average Employee Workweek	-30.3	3.4	41.9	48.3	-44.9	-13.0	16.8	58.9	20.8	-4.0
Capital Expenditures	--	--	--	--	--	-16.4	12.2	51.7	30.0	-17.8

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 February 17, 2009.