



# BUSINESS OUTLOOK

## SURVEY

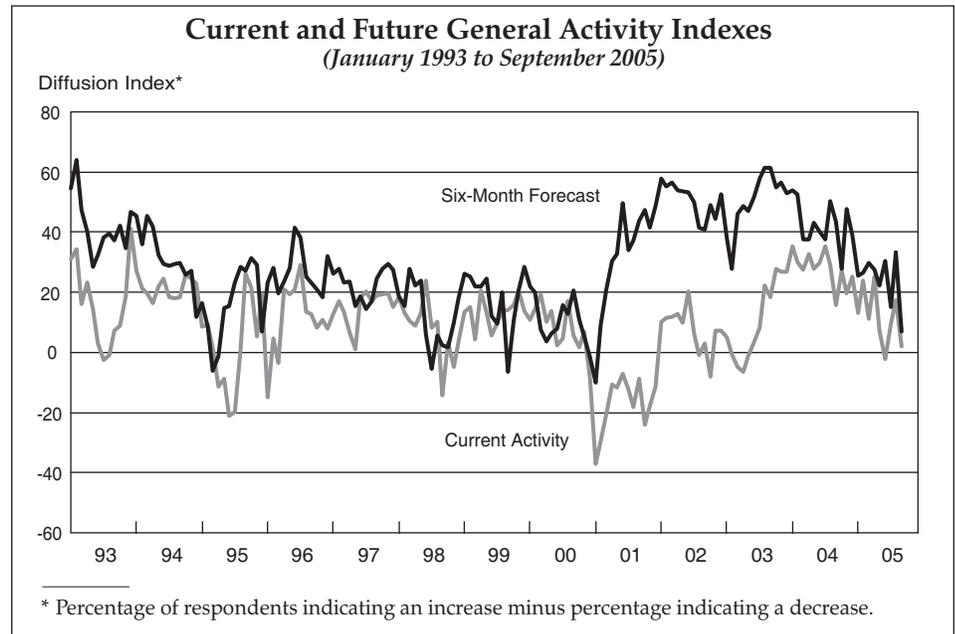
September 2005

The pace of activity in the region's manufacturing sector slowed in September, according to firms polled for this month's survey. Indicators for general activity and new orders fell substantially from their readings in August and suggest little to no growth this month. Shipments increased but at a slower pace, manufacturing employment and work hours were virtually steady, and firms again reported an increase in industrial prices. The region's manufacturing executives were significantly less optimistic about future activity than in August.

### Current Indicators Are Weaker

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, fell from 17.5 to 2.2, the lowest reading in three months (see Chart). Twenty-four percent of the firms reported increases in activity (compared to 36 percent last month); 22 percent reported a decline. Other broad indicators also declined this month. The new orders index fell 20 points, recording its first negative reading since April 2003. The shipments index fell five points but remained positive at 13.2. Indicators for unfilled orders and delivery times were negative and corroborate evidence of weakness this month: the unfilled orders index fell 18 points, and the delivery times index fell three points.

The moderation in manufacturing activity is evident in replies to questions about employment and hours worked. The percentage of firms reporting increased employment (15 percent) was only slightly higher than that of firms reporting lower employment



(13 percent). The current employment index, which fell four points, is now at its lowest mark since September 2003. On balance, the workweek was mostly steady this month.

### Price Indexes Move Higher

Firms reported higher production costs this month. Fifty-seven percent of the firms reported higher input prices, compared to 33 percent in August. The prices paid index rose 27 points to its highest reading since January.

Higher prices for final manufactured goods were also more widespread this month than last. Twenty-two percent of the firms reported higher prices for their goods, compared to 12 percent last month, and the prices received index rose six points. Expectations about future prices were considerably higher this month. The future prices paid in-

dex rose 26 points, and the future prices received index rose six points.

### Six-Month Indicators Fall Significantly

Overall expectations for the next six months fell sharply in September. The future general activity index fell from 33.4 in August to 7.0 this month, the lowest reading since January 2001 (see Chart). Other broad future indicators showed similar declines: the future shipments index fell 23 points, and the future new orders index fell 18 points. On balance, firms expect unfilled orders to decline modestly over the next six months and delivery times to fall somewhat. Inventories are expected to remain flat.

Firms' outlook for future employment growth held relatively steady this month, although firms are less optimis-

tic about expanding the work hours of existing employees. The future employment index declined only slightly from its reading in August: 25 percent of the firms expect employment to rise over the next six months; 14 percent expect it to fall. On balance, firms expect the average workweek to decline: the future workweek index fell 17 points and was negative for the second time in three months.

In a special question this month, firms were asked about the impact of recent higher energy prices on current new orders and production as well as on planned production over the next six months (see Special Question). The largest share of firms indicated that higher energy prices have so far had only a slight negative effect on new orders (50 percent) and production (58 percent). Nearly 30 percent of the firms said that higher energy prices had a moderate negative effect on new orders; 6 percent reported a significant negative effect. Twenty-three percent said higher energy prices had a moderate negative effect on current production; 11 percent reported a significant negative effect.

With regard to planned production over the next six months, 24 percent said higher energy prices would have a moderate negative effect; 18 percent said they would have a significant negative effect.

### Summary

Overall manufacturing conditions in the region are mostly steady, and indicators for general activity, new or-

ders, and employment suggest little or no growth this month. According to responses from this month's survey, input price pressures were greater this month, and more firms reported higher prices for final manufactured goods. Most broad indicators fell notably in September, and a sizable share of firms indicated that energy costs will adversely affect production over the next six months.

<b>Special Question (September 2005)</b>			
What has been the effect of recent higher energy prices on your firm's current new orders and production, and on planned production for the next six months?			
	<b>Current</b>		<b>Planned Production for next six months</b>
	<b>New Orders</b>	<b>Production</b>	
	<b>%</b>	<b>%</b>	<b>%</b>
Slightly negative effect	50.0	58.1	49.2
Moderately negative effect	29.7	22.6	23.8
Significantly negative effect	6.2	11.3	17.5
Positive Effect	14.1	8.0	9.5
Total	100.0	100.0	100.0

## BUSINESS OUTLOOK SURVEY

### Summary of Returns September 2005

	<b>September vs. August</b>					<b>Six Months from Now vs. September</b>				
	<b>Previous Diffusion Index</b>				<b>Diffusion Index</b>	<b>Previous Diffusion Index</b>				<b>Diffusion Index</b>
		<b>Increase</b>	<b>No Change</b>	<b>Decrease</b>			<b>Increase</b>	<b>No Change</b>	<b>Decrease</b>	
What is your evaluation of the level of general business activity?	17.5	24.4	50.6	22.2	2.2	33.4	32.6	40.6	25.6	7.0
Company Business Indicators										
New Orders	19.8	24.9	46.7	25.4	-0.5	30.5	35.0	39.8	22.4	12.5
Shipments	17.8	31.3	50.3	18.1	13.2	32.9	36.0	34.4	25.6	10.4
Unfilled Orders	7.2	14.8	59.2	25.8	-10.9	-1.3	17.5	57.1	23.2	-5.7
Delivery Times	0.9	9.7	78.2	12.1	-2.4	-8.3	10.8	69.7	17.3	-6.5
Inventories	-7.3	23.3	54.9	21.8	1.4	-7.6	22.9	49.1	24.5	-1.5
Prices Paid	25.9	57.3	36.2	4.5	52.7	43.6	72.6	23.4	2.8	69.8
Prices Received	3.0	21.7	64.7	13.1	8.6	30.1	44.5	47.1	8.3	36.2
Number of Employees	6.3	15.2	72.3	12.5	2.7	12.6	25.2	58.7	13.8	11.4
Average Employee Workweek	1.0	15.3	70.7	14.1	1.2	12.3	14.8	62.9	19.0	-4.2
Capital Expenditures	—	—	—	—	—	17.6	24.0	35.6	11.1	12.9

#### 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 September 13, 2005.