



BUSINESS OUTLOOK SURVEY

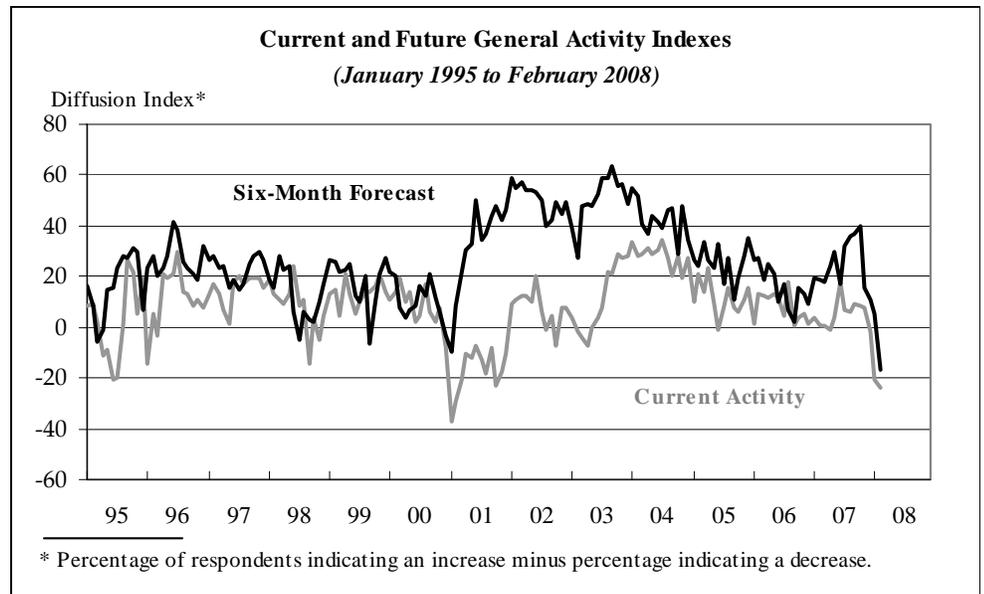
February 2008

Activity in the region's manufacturing sector continued to weaken this month, according to firms surveyed for the February *Business Outlook Survey*. After falling significantly last month, indexes for general activity, shipments, and new orders remained negative. Despite reporting a weakness in activity, firms continued to report a rise in prices for inputs and their own manufactured goods. Manufacturers' outlook for the next six months turned noticeably more pessimistic this month.

Indexes Suggest Continued Weakness

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, fell from -20.9 in January to -24.0 this month (see Chart). Forty percent of the firms reported no change in activity from January, but the percentage of firms reporting decreases (42 percent) was substantially greater than the percentage reporting increases (18 percent). Other broad indicators also suggested continued declines this month. Demand for manufactured goods, as represented by the survey's new orders index, remained negative, although the index increased from -15.2 to -10.9. The current shipments index, however, fell 10 points, from -2.3 to -12.2. Indexes for both unfilled orders and delivery times remained negative.

Overall weakness was still evident in replies about employment and hours worked, although the indexes were higher than last month's low readings. The current employment index increased from -1.5 to 2.5, and the percentage of firms reporting an increase in employment (22 percent) was slightly greater than the percentage reporting a decrease (20 percent). Weakness was still evident in aver-



age hours worked: 18 percent reported declines; 14 percent reported increases. The average workweek index was less negative this month, at -3.9, compared with -16.1 in January.

Firms Report Higher Prices

A sizable share of the firms continued to report higher prices, both for inputs and their own products. Fifty-three percent of manufacturers reported higher input prices this month, although the prices paid index edged slightly lower, from 49.8 in January to 46.6. Price increases for the manufacturers' own products remained relatively widespread. Thirty-one percent of the firms reported increased prices for their own goods this month. The prices received index, however, declined from its 39-month high of 32.0 in January to 24.3.

Six-Month Outlook Deteriorates

The outlook for manufacturing growth over the next six months deteriorated further

this month. The future general activity index declined from 5.2 in January to -16.9, its first negative reading since January 2001 and the lowest reading since 1990. The index has declined 57 points over the past four months (see Chart). The percentage of firms expecting declines in activity over the next six months (39 percent) now exceeds the percentage expecting increases (22 percent). The index for future new orders dropped 17 points and moved into negative territory, while the future shipments index fell eight points but remained positive.

This month, the future employment index declined notably. For the first time since 2001, the index fell below zero, declining from 18.8 to -8.8. The percentage of firms expecting declines in employment (31 percent) exceeded the percentage expecting increases (22 percent).

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In this month's special questions, firms were asked to characterize their current inventory situation, as well as their customers' inventory plans (see Special Questions). Although 58 percent of the firms said their current inventories are about right for current economic conditions, more than 31 percent indicated that current inventories were too high, and most of these firms said they expect a decrease in the first quarter. Only 8 percent indicated that current inventories were too low. Nearly 40 percent of the firms also said that their customers' inventory plans had decreased, and 56 percent of those firms indicated that rebuilding of customers' inventories would not occur until after the second quarter.

Summary

The region's manufacturing sector showed continued weakness in February, as evidenced by negative readings of the indexes for most of the broad current indicators: activity, new orders, shipments, and average hours worked. Price pressures were also evident, although the survey's price diffusion

indexes were slightly less elevated this month. Firms' expectations for future activity have deteriorated sharply over the past four months, and for the first time since 2001,

more firms expect declines in activity and employment over the next six months than expect increases.

Special Questions (February 2008)

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

Inventories are:	%
About right for current economic conditions	57.9
Too high and are expected to increase in the first quarter	2.4
Too high and are expected to decrease in the first quarter	28.9
Too low and are expected to increase in the first quarter	4.8
Too low and are expected to decrease in the first quarter	3.6
No response	2.4

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

Increase	3.6
Not change	37.3
Decrease*	39.8
No response	19.3

* Firms indicating that customers' inventory plans had decreased were asked when they expect a rebuilding of inventories. About 14 percent said this would occur in the first quarter, 17 percent said it would occur in the second quarter, 56 percent said it would happen after the second quarter, and 14 percent thought the declines would be permanent.

BUSINESS OUTLOOK SURVEY February 2008	February vs. January					Six Months from Now vs. February				
	<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?	-20.9	17.9	39.6	42.0	-24.0	5.2	21.9	35.9	38.8	-16.9
Company Business Indicators										
New Orders	-15.2	25.8	36.9	36.8	-10.9	9.5	28.7	33.1	36.4	-7.8
Shipments	-2.3	24.9	34.6	37.2	-12.2	13.6	35.9	33.1	30.7	5.2
Unfilled Orders	-6.2	18.8	49.3	29.7	-10.9	-12.1	15.4	57.8	25.9	-10.6
Delivery Times	-3.1	10.6	70.3	18.2	-7.6	-8.2	9.4	73.1	15.2	-5.8
Inventories	-11.7	15.5	55.4	28.6	-13.0	-7.7	20.2	43.8	33.1	-12.9
Prices Paid	49.8	53.0	40.5	6.4	46.6	60.6	43.8	45.3	7.0	36.8
Prices Received	32.0	30.7	62.5	6.4	24.3	37.2	43.0	44.2	10.9	32.1
Number of Employees	-1.5	22.1	58.3	19.6	2.5	18.8	22.3	46.7	31.0	-8.8
Average Employee Workweek	-16.1	13.7	65.6	17.6	-3.9	-1.2	18.5	60.5	20.4	-1.9
Capital Expenditures	--	--	--	--	--	19.0	23.8	47.9	22.1	1.7

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 18, 2008.