



BUSINESS OUTLOOK

SURVEY

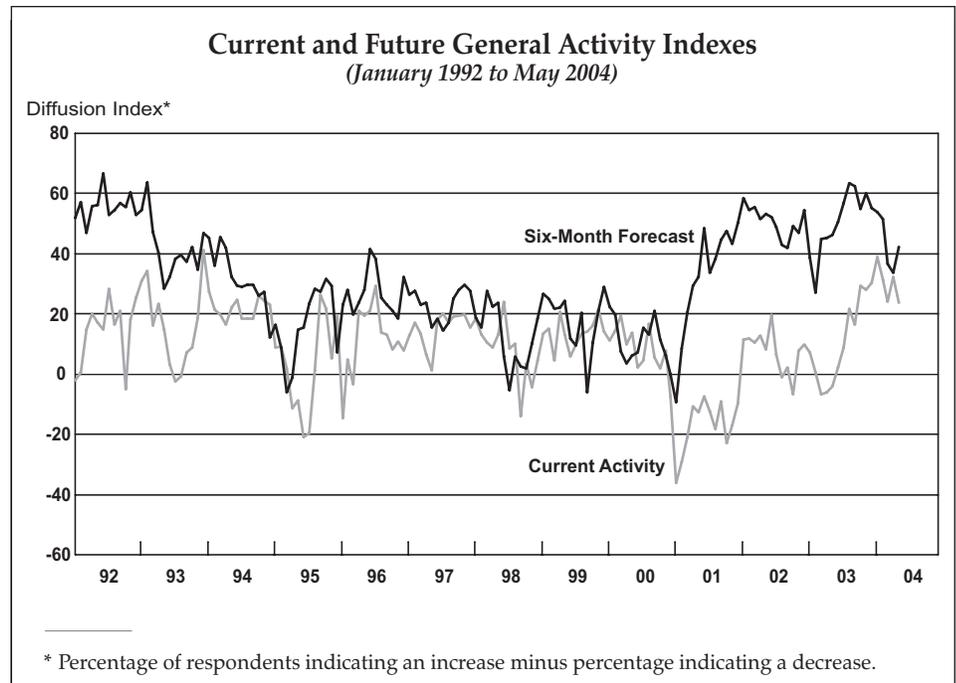
May 2004

Activity in the region's manufacturing sector continues to expand, according to firms surveyed for this month's *Business Outlook Survey*. Although indicators for general activity and new orders fell from their April readings, they remained at relatively high levels. The employment index, positive again this month, increased substantially from April's reading. The input prices that manufacturers face continued to rise and a sizable share of manufacturers reported increases in their own final goods. Expectations for overall manufacturing growth over the next six months remain high, and almost 40 percent of the firms expect employment to increase.

Growth Continues but Indicators Fall Back Some

The diffusion index of current activity, the survey's broadest measure of manufacturing conditions, decreased from 32.5 in April to 23.8 this month (see Chart). Although growth this month did not match the stronger pace of growth reported in April, the percentage of firms reporting increases (41 percent) exceeded the percentage reporting decreases (17 percent) for the 12th consecutive month. Both the new orders index and the shipments index showed a similar pattern, each falling about eight percentage points. Firms reported higher unfilled orders this month and longer delivery times, suggesting continued strength. The current inventories index remained positive for the second consecutive month.

There was a notable improvement in manufacturing employment at the firms in our survey this month. Thirty-four percent of the manufacturers reported higher employment, and 11 percent reported lower employment. The current employment diffusion index jumped from 12.2 to 22.6, its highest reading since April 1973. Respondents also reported that the average



workweek expanded again this month. The workweek index rose from 10.4 to 12.7.

Manufacturing Prices Continue to Rise

A larger share of manufacturers are facing higher costs this month, and a significant share of firms reported higher prices for their own manufactured goods. Sixty-two percent of the manufacturers reported higher input prices, and only 3 percent reported lower prices. The prices paid diffusion index increased from 51.9 in April to 59.6. The index has now remained positive for 10 consecutive months and has risen almost 30 points since the end of last year.

Nearly 35 percent of firms reported that prices of their own manufactured goods were higher this month, compared with 28 percent in April. The prices received index jumped from 13.7 in April to 29.1 in May, its highest reading since February 1989. The index has been positive for 10 consecutive months.

Six-Month Forecasts Remain Optimistic

Overall expectations for the next six months remain optimistic. The future general activity index increased from 33.6 in April to 42.3 this month. Fifty-eight percent of the firms expect increased activity over the next six months; 16 percent expect declines. The future shipments index increased about two points, but the future new orders index was virtually unchanged.

Expectations regarding future employment are quite positive. The future employment index increased slightly, from 26.7 to 28.2. Almost 38 percent of the firms expect to add workers over the next six months, and only 9 percent expect to make cuts. A slightly higher percentage of firms expect to increase the average employee workweek (20 percent) than expect to decrease it (14 percent).

In a special question this month, firms were asked about the impact of recent cost increases on expected price increases for

Special Questions (May 2004)

1. Many firms have been reporting price increases for raw materials and energy since the beginning of the year. What impact will these recent price increases have on the prices of your finished products over **the next three months**?

We expect steady prices for our goods	39.3%
We expect price increases of approximately:	
0-5%	25.6%
5-10%	21.4%
10-15%	8.6%
No response	5.1%
Total	100.0%

Since the beginning of the year, we have already increased our prices by:

0-5%	26.5%
5-10%	14.5%
10-15%	4.3%
> 15%	3.4%
Total	48.7%

2. Are you currently experiencing shortages or delayed delivery of any critical raw materials?*

Yes	39.1%
No	60.9%

If yes, have these problems affected rates of production?

Yes	55.6%
No	44.4%

* The most frequently cited raw materials were steel and steel-related products (such as scrap, stainless, and wire rod) followed by wood or lumber products.

their products over the next three months (see Special Questions). Although 39 percent of respondents expect steady prices for their own goods over the next three months, 56 percent indicated that they expect increases (26 percent expect increases of 5 percent or less; 30 percent expect increases of greater than 5 percent). Nearly 49 percent of the firms indicated they have already increased prices since the beginning of the year. Thirty-nine percent of the firms are currently experiencing shortages or delayed delivery of critical raw materials, and over half of these firms reported that these problems have affected rates of production.

Summary

The region's manufacturing sector expanded again this month, but the pace of growth was slower than in April. Although the general activity index from our survey fell this month, it has remained positive for 12 consecutive months. The indicator for current employment showed notable improvement in May. Widespread increases in prices for raw materials and other inputs were reported again this month, and a larger share of firms reported increases in their own manufactured goods. Manufacturing executives remain optimistic about growth in their sector over the next six months.

BUSINESS OUTLOOK SURVEY

Summary of Returns

May 2004

	May vs. April					Six Months from Now vs. May				
	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?	32.5	41.1	41.6	17.3	23.8	33.6	58.0	22.5	15.7	42.3
Company Business Indicators										
New Orders	26.1	40.9	36.4	22.6	18.3	40.8	54.8	25.1	15.1	39.7
Shipments	27.7	40.7	37.8	20.5	20.2	39.5	56.4	23.8	15.1	41.3
Unfilled Orders	-2.5	29.4	51.7	16.6	12.8	16.7	30.8	45.4	17.0	13.8
Delivery Times	0.8	19.1	68.8	10.7	8.4	6.0	20.4	55.6	16.6	3.8
Inventories	11.7	27.9	52.9	18.6	9.2	-4.2	27.3	45.0	22.7	4.6
Prices Paid	51.9	62.2	35.2	2.6	59.6	50.5	45.8	41.6	9.9	35.8
Prices Received	13.7	34.6	59.4	5.5	29.1	20.5	36.6	51.8	7.6	29.0
Number of Employees	12.2	34.0	54.6	11.4	22.6	26.7	37.6	47.5	9.3	28.2
Average Employee Workweek	10.4	27.2	57.4	14.5	12.7	15.7	19.6	60.2	14.0	5.6
Capital Expenditures	—	—	—	—	—	30.3	29.3	35.9	7.7	21.6

Notes:

- (1) Items may not add up to 100 percent because of omission of respondents.
- (2) All data seasonally adjusted.
- (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.
- (4) Survey results reflect data received through May 14, 2004.