



# BUSINESS OUTLOOK SURVEY

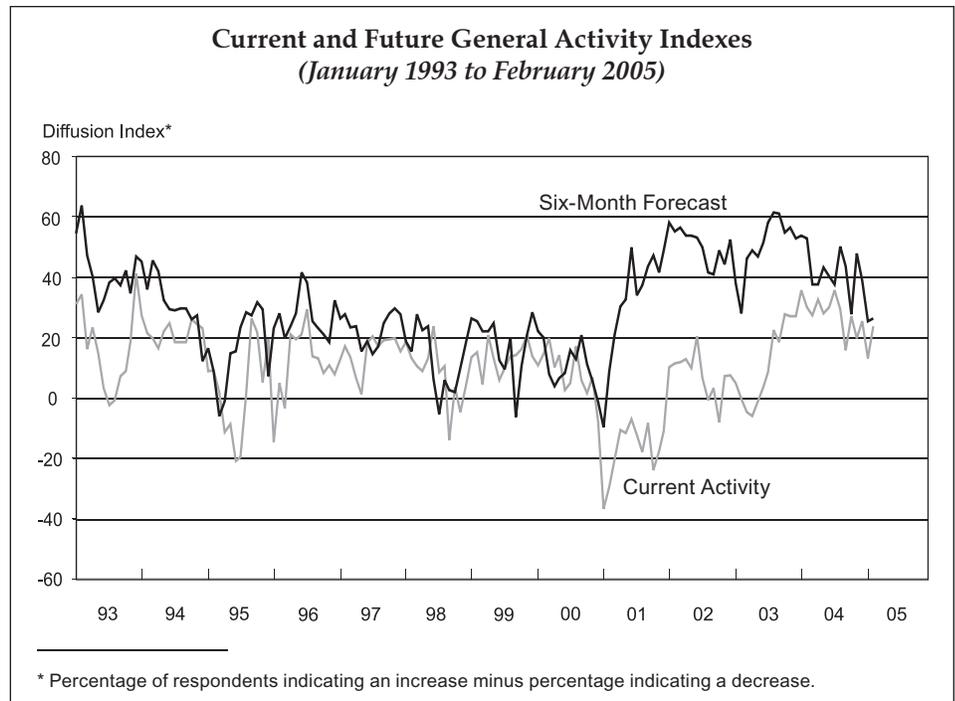
February 2005

Activity in the region's manufacturing sector continues to expand, according to firms surveyed for this month's Business Outlook Survey. Most indicators point to somewhat faster expansion in February, with increases recorded in the indexes of general activity, new orders, and shipments. Nearly one-quarter of the firms reported higher employment. Firms continue to report a rise in prices for inputs and finished goods, although the price index for inputs fell significantly this month. The region's manufacturing executives remain generally optimistic that business conditions will improve over the next six months.

## Most Current Indicators Show Improvement

The diffusion index of current activity, the broadest measure of manufacturing conditions, increased from 13.2 in January to 23.9 this month. The index has now remained positive for 21 consecutive months (see *Chart*). The percentage of firms reporting increases in activity (36 percent) was three times greater than the percentage reporting decreases. The indexes for new orders and shipments also remained positive this month. The current new orders index increased two points and the shipments index increased eight points. Indexes for both unfilled orders and delivery times improved this month. The delivery time index increased 10 points and registered its first positive reading in four months.

Despite improvement in the survey's broad indicators, the employment index was lower this month. The current employment index decreased from a reading of 17.0 in January to 12.3, its lowest point in 15 months. Still, the



percentage of firms reporting higher employment (24 percent) was greater than the percentage reporting lower employment (11 percent) for the 17th consecutive month. The current work week index remained positive and increased moderately from last month.

## Input Price Pressures Moderate

Although firms continue to report higher production costs, the index for input prices fell notably this month. Nearly one-half of firms reported higher prices for inputs, but this was substantially lower than the two-thirds that reported higher prices in January. The diffusion index for prices paid declined almost 23 points and is at its lowest reading in 12 months.

Firms continue to report higher

prices for their own manufactured goods. Twenty-nine percent reported higher prices for their own goods; 4 percent reported lower prices. The diffusion index for current prices received was virtually unchanged from its reading in January.

Expectations about future prices, however, were higher this month. The future prices paid index increased 21 points, and the future prices received index increased 12 points.

## Six-Month Forecast Improves Slightly

Overall expectations for the next six months remain generally optimistic, although the index for future employment declined sharply this month. The future general activity index increased slightly from 25.5 in January to 26.5 this month (see *Chart*).

The percentage of firms expecting an increase in activity over the next six months (40 percent) exceeded by a wide margin the percentage expecting activity to decrease (14 percent). Other future indicators remained positive, but the future new orders index decreased seven points, while the future shipments index increased one point. Firms, on balance, expect unfilled orders and delivery times to remain near current levels. Inventories are expected to fall.

Firms' expectations for future employment deteriorated in this month's survey. The future employment index decreased from a reading of 25.9 in January to 11.8. The 14-point decline

brings the index to its lowest reading in 21 months.

In a special question this month, firms were asked whether the share of products they export will increase over the remainder of this year (see *Special Question*). Although 70 percent of the firms expect no change in the share of products they export, the percentage expecting an increase in export share (26 percent) exceeded the percentage expecting a decrease (4 percent).

#### Summary

Most indicators of current activity improved this month and continue to reflect growth in the region's

manufacturing sector. Indexes for general activity, new orders, and shipments all increased from their readings in January. Employment growth, as reflected in the current employment index, was more modest this month. Responses from this month's survey suggest that input price pressures moderated this month. Firms expect growth in their business to continue over the next six months as future indicators for general activity and shipments were higher this month. Indicators for future new orders and employment, however, reflected more subdued expectations.

#### Special Question (February 2005)

Over the remainder of this year, do you expect the share of products you export to:

Stay the same	70.2%
Increase	26.2%
Decrease	3.6%
Total	100.0%

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##### Summary of Returns

February 2005

	Previous Diffusion Index	February vs. January				Six Months from Now vs. February				
		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?	13.2	35.5	52.9	11.6	23.9	25.5	40.4	45.6	14.0	26.5
Company Business Indicators										
New Orders	9.8	34.1	42.6	22.4	11.7	36.9	41.9	42.6	12.1	29.8
Shipments	15.9	41.1	40.8	17.3	23.8	29.5	46.4	36.6	15.4	30.9
Unfilled Orders	-5.2	13.0	70.0	15.8	-2.8	8.3	15.2	64.3	13.2	1.9
Delivery Times	-3.2	14.3	77.5	7.3	7.1	-3.5	13.9	70.7	11.5	2.5
Inventories	-2.7	20.5	50.0	28.0	-7.4	-10.4	13.6	49.3	30.5	-16.9
Prices Paid	66.1	49.0	45.6	5.4	43.5	42.2	66.9	26.1	3.9	63.1
Prices Received	24.7	29.0	66.5	4.3	24.6	28.6	45.6	46.7	5.5	40.1
Number of Employees	17.0	23.7	63.3	11.4	12.3	25.9	30.0	47.2	18.3	11.8
Average Employee Workweek	9.1	19.7	70.2	8.5	11.3	6.0	14.0	71.3	10.5	3.5
Capital Expenditures	—	—	—	—	—	22.9	30.9	37.5	6.9	23.9

#### 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 February 14, 2005.