



# BUSINESS OUTLOOK SURVEY

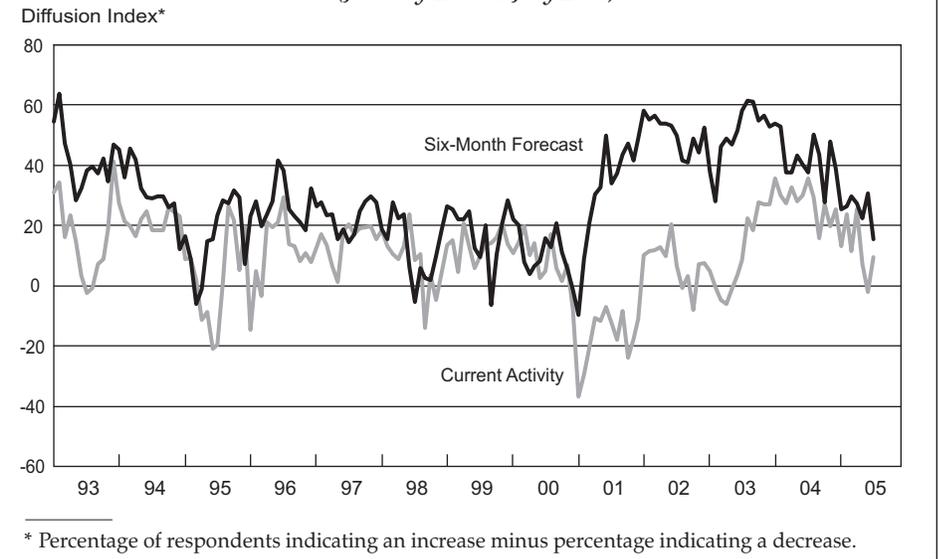
July 2005

Activity in the region's manufacturing sector increased modestly, according to firms surveyed for this month's *Business Outlook Survey*. Indicators for general activity, shipments, and new orders were all up from their readings in June. Firms continue to report a rise in prices for inputs and for their own finished goods; both of these price indexes increased slightly this month. Despite the improvement in current conditions, respondents were less optimistic about future conditions this month than in June. However, they still expect manufacturing growth to continue.

## Current Indicators Bounce Back

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from -2.2 in June to 9.6 this month. The increase of almost 12 points returns the index to positive territory after being negative for one month (see Chart 1). The portion of firms reporting increases in activity exceeded that of firms reporting decreases (28 percent versus 19 percent). Other broad indexes showed modest improvement. The new orders index edged up three points to a reading of 5.0, suggesting only slight growth this month. The current shipments index increased nearly six points, to 12.4. The current unfilled orders and delivery times indexes improved but were negative for the second consecutive month. Firms reported overall declines in inventories this month, as the current inventories index remained negative, falling 11 points.

**Chart 1** Current and Future General Activity Indexes  
(January 1993 to July 2005)



The recent moderation in manufacturing growth is evident in replies to questions about employment and hours worked. The percentage of firms reporting increased employment was higher than that of firms reporting lower employment for the 22nd consecutive month. But the current employment index fell to its lowest point since November 2003. While remaining at a relatively low level, the current workweek index increased two points this month.

## Price Pressures Continue to Moderate

Firms continue to report higher production costs. Thirty-five percent of the manufacturers reported higher prices for inputs; only 9 percent reported lower prices. The diffusion index for prices paid rose for the first time in three months, though only a modest three points above June's reading, which was

the index's lowest point in 21 months (see Chart 2).

More firms continue to report higher prices than report lower prices for their own manufactured goods (21 percent versus 9 percent). The diffusion index for prices received increased from 8.1 in June to 12 this month, but this is the second-lowest reading in 19 months (see Chart 2).

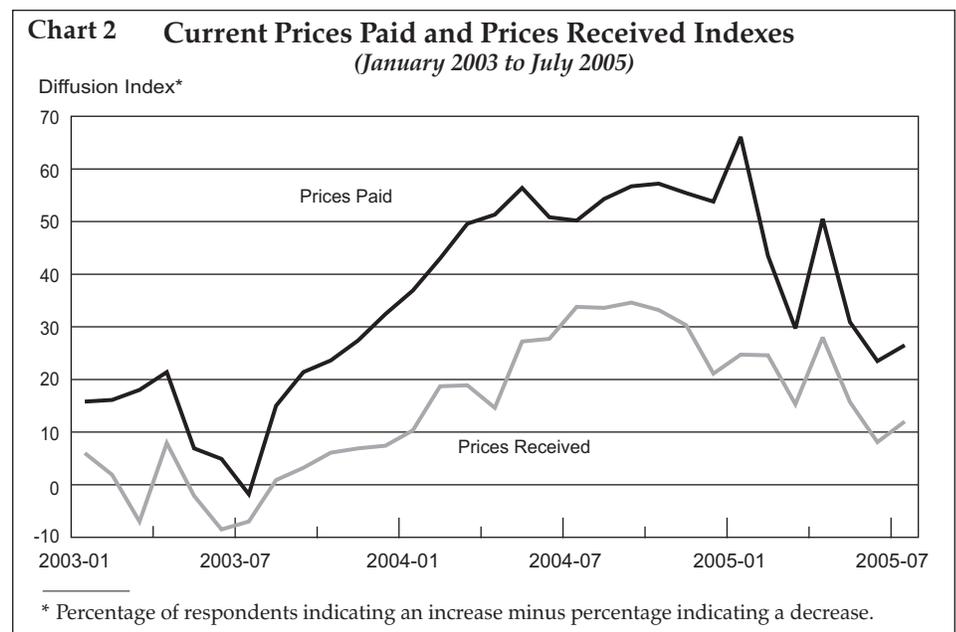
## Six-Month Forecasts Less Optimistic

Despite the improvement in current activity, expectations for future growth showed some deterioration this month. The index for future activity fell from 30.6 in June to 15.3 this month, its lowest reading since February 2001 (see Chart 1). Despite the decline in the index, the percentage of firms expecting increases in activity over the next six months (40 percent) still exceeds the percentage expecting decreases (25 percent). Other

future indicators declined this month as well: the future new orders index fell 12 points, and the future shipments index fell 14 points. Little change is expected in unfilled orders and delivery times over the next six months (these indexes remain near zero). More firms expect inventories to decline (34 percent) than expect them to increase (14 percent). The future inventory index remained negative and fell 11 points. The future employment index also declined notably, from 21.4 in June to 5.5 this month, its lowest reading since August 2002. The percentage of firms expecting to increase employment over the next six months (26 percent) is slightly larger than the percentage expecting to decrease employment (20 percent). The future workweek index declined 18 points, falling below zero for the first time since March 2001.

### Summary

Indicators of current activity point to an expansion of the region's manufacturing sector. Indexes for general activ-



ity, shipments, and new orders suggest a moderate pace of growth. Firms continue to report higher prices for inputs and for their own manufactured goods, but the survey's price indexes remain lower than earlier this year. Although

manufacturers are generally optimistic about growth in their sector, expectations for the next six months fell dramatically in July.

### BUSINESS OUTLOOK SURVEY Summary of Returns July 2005

	Previous Diffusion Index	July vs. June			Diffusion Index	Six Months from Now vs. July			Diffusion Index	
		Increase	No Change	Decrease		Previous Diffusion Index	Increase	No Change		Decrease
What is your evaluation of the level of general business activity?	-2.2	28.1	55.3	18.5	9.6	30.6	39.9	30.7	24.6	15.3
Company Business Indicators										
New Orders	2.5	28.6	47.8	23.6	5.0	35.0	48.1	19.7	25.4	22.8
Shipments	6.6	31.8	48.9	19.3	12.4	36.1	47.6	21.3	25.1	22.5
Unfilled Orders	-19.0	13.5	63.8	22.7	-9.2	2.9	20.6	51.2	22.7	-2.0
Delivery Times	-13.2	11.7	74.7	13.6	-1.9	-4.9	15.8	61.9	17.8	-2.0
Inventories	-0.4	15.4	56.2	26.3	-10.9	-8.7	14.3	45.4	34.3	-20.0
Prices Paid	23.5	35.3	56.0	8.7	26.5	29.2	46.4	45.7	3.3	43.0
Prices Received	8.1	21.2	66.4	9.1	12.0	26.5	29.1	57.8	4.7	24.4
Number of Employees	7.1	18.2	66.9	14.8	3.4	21.4	25.9	47.4	20.4	5.5
Average Employee Workweek	4.4	15.4	72.1	9.4	6.0	15.1	19.8	53.6	22.8	-3.1
Capital Expenditures	—	—	—	—	—	19.9	22.4	51.3	10.1	12.3

#### 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 July 18, 2005.