



# BUSINESS OUTLOOK

## SURVEY

March 2006

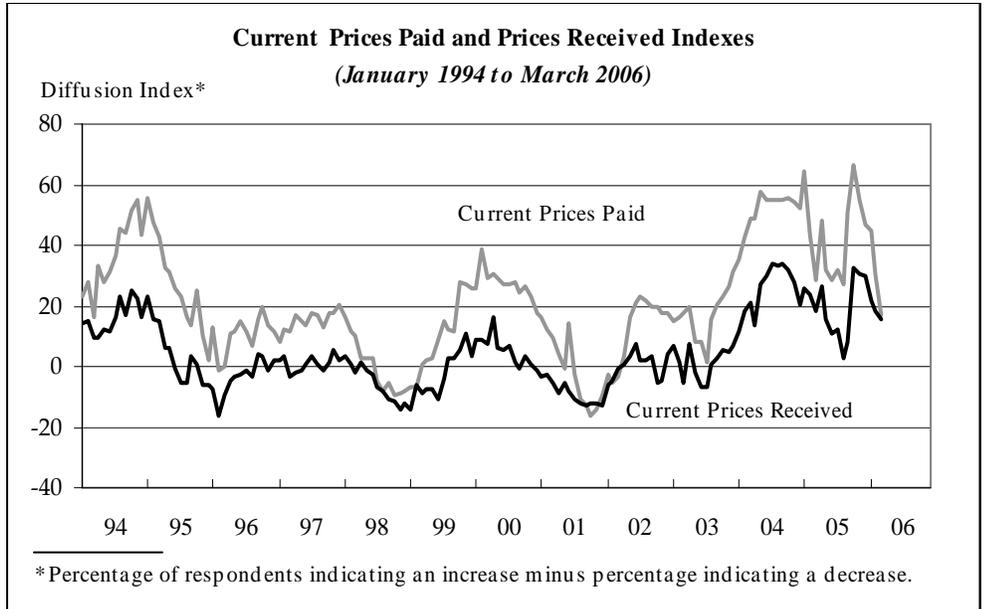
Activity in the region's manufacturing sector continues to grow in March, according to firms surveyed for this month's *Business Outlook Survey*. Although the general activity index decreased slightly this month, indicators for new orders and shipments showed improvement. Firms continued to report higher prices for inputs and their own manufactured goods, although the survey's price indicators continued to moderate. The region's manufacturing executives remain generally optimistic about growth in business at their firms over the next six months, although future indicators suggest less optimism than last month.

### Manufacturing Expansion Continues

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from 15.4 in February to 12.3 this month.

Twenty-two percent of the firms reported increases in activity; 10 percent reported decreases. Other broad indicators rose moderately, however. The new orders index increased eight points this month, and the shipments index increased two points. Firms, on balance, reported higher unfilled orders and longer delivery times again this month, although these two indexes were lower than in last month.

Continued expansion in manufacturing is evident in replies to questions about employment and hours worked. However, the percentage of firms reporting increased employment (17 percent) was somewhat lower than in February (24 percent). The current employment index fell six points this month. On bal-



ance, the workweek continued to increase: More firms reported a longer workweek (17 percent) than reported a shorter one (11 percent).

### Price Pressures Continue to Moderate

Firms reported higher production costs again, although price pressures moderated for the fifth consecutive month. Twenty-three percent of the firms reported higher input prices, but this was down from 36 percent in February and 53 percent in January. The prices paid index fell 13 points and has dropped 50 points over the past five months (see Chart).

Higher prices for final manufactured goods were reported by 19 percent of the firms, slightly lower than the 24 percent that reported them last month. The prices received index, at 15.4, was down three points from February and has fallen steadily for five consecutive months (see Chart).

### Six-Month Forecasts Are Less Optimistic

Expectations for future manufacturing growth deteriorated somewhat this month; however, expectations for new orders, shipments, and employment remain favorable. The future general activity index fell 17 points, but the new orders index fell only six points and the shipments index fell five points. The future employment index decreased three points, but a larger percentage of firms expect to increase payrolls over the next six months (31 percent) than expect to decrease them (12 percent).

In special questions this month firms were asked about their experiences filling recent job openings (see Special Questions). Fifty-one percent of the firms indicated that they had recently experienced problems filling job openings because applicants lacked sufficient skills. This is higher than in 2004, when 42 percent of

the firms with job openings reported problems filling positions. The most frequently cited skills that applicants lacked were the use of production machines; specific plant operator skills; and basic skills in reading, writing, and math. Respondents were asked about whether the gap between required skills and available skills has changed over time. Nearly 16 percent of the firms indicated that the gap was greater than it was six months ago, and 19 percent said that it was greater than a year ago.

### Summary

Indicators of current activity all point to continued growth of the region's manufacturing sector this month: Indexes for general activity, new orders, shipments, and employment all remained positive. Price pressures remain but continue to show a moderating trend. Firms expect continued improvement of manufacturing business over the next six months, even though expectations were not as strong as in February.

### Special Questions (March 2006)

1. Has your firm experienced problems filling job openings in the past three months because applicants did not have sufficient qualifications?

	March 2006	April 2004
Yes	51.4%	42.0%
No	37.2%	36.1%
Have had no openings	11.4%	21.9%
Total	100.0%	100.0%

If yes, what are the three most significant skill categories that applicants are lacking?

	Percent choosing specific skill category*	
	March 2006	April 2004
Skills in the use of production machines or tools	92.6%	76.4%
Specific plant and system operator skills	66.6%	50.9%
Basic skills (reading, writing, math)	55.6%	40.0%
Supervisory, management, or admin. skills	51.9%	23.6%
English language skills	18.5%	14.5%
Computer skills	22.2%	9.1%

\*The totals sum to more than 100% because each participant could choose three categories.

2. In general, how has the gap between required skills and available skills changed over the following periods?

	Now, compared to six months ago	Now, compared to one year ago
Larger	15.9%	19.4%
Smaller	6.3%	11.3%
Same	77.8%	69.3%
	100.0%	100.0%

<b>BUSINESS OUTLOOK SURVEY (March 2006)</b>	March vs. February					Six Months from Now vs. March				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>
What is your evaluation of the level of general business activity?	<b>15.4</b>	22.4	63.6	10.1	<b>12.3</b>	<b>31.1</b>	31.6	41.9	17.0	<b>14.6</b>
Company Business Indicators										
New Orders	<b>12.5</b>	30.4	54.0	9.6	<b>20.8</b>	<b>38.1</b>	46.5	29.8	14.6	<b>31.8</b>
Shipments	<b>22.5</b>	34.8	50.6	10.5	<b>24.3</b>	<b>27.6</b>	39.6	35.9	17.4	<b>22.2</b>
Unfilled Orders	<b>10.2</b>	16.9	67.7	11.2	<b>5.7</b>	<b>2.8</b>	19.8	53.6	18.6	<b>1.2</b>
Delivery Times	<b>8.6</b>	14.8	72.7	11.1	<b>3.7</b>	<b>-1.9</b>	13.1	62.8	17.1	<b>-4.0</b>
Inventories	<b>9.3</b>	26.8	54.2	15.8	<b>11.1</b>	<b>1.4</b>	23.3	37.7	31.7	<b>-8.3</b>
Prices Paid	<b>30.5</b>	22.7	67.1	5.5	<b>17.2</b>	<b>33.0</b>	38.9	48.1	7.9	<b>31.0</b>
Prices Received	<b>18.2</b>	18.9	74.9	3.5	<b>15.4</b>	<b>24.2</b>	37.3	50.3	7.3	<b>30.0</b>
Number of Employees	<b>11.3</b>	17.0	67.3	11.5	<b>5.4</b>	<b>22.4</b>	31.0	50.9	12.0	<b>19.0</b>
Average Employee Workweek	<b>8.7</b>	17.0	64.4	10.7	<b>6.3</b>	<b>11.5</b>	17.1	60.7	12.4	<b>4.7</b>
Capital Expenditures	<b>--</b>	--	--	--	<b>--</b>	<b>23.5</b>	31.7	41.4	8.0	<b>23.7</b>

#### 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 March 14, 2006.