



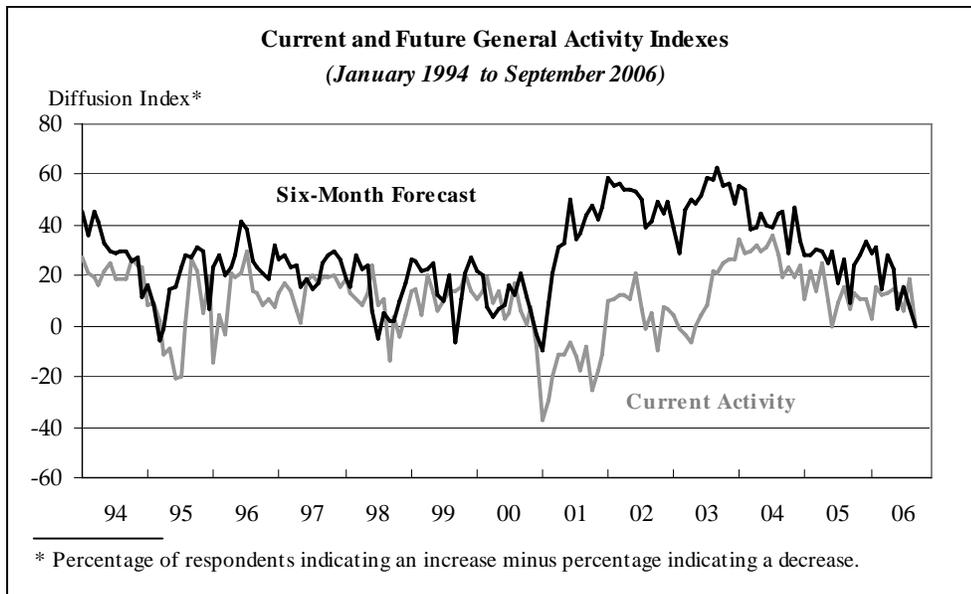
BUSINESS OUTLOOK SURVEY

September 2006

The pace of activity in the region's manufacturing sector slowed in September, according to firms polled for this month's survey. Indicators for general activity, new orders, and shipments fell substantially from their readings in August and suggest no growth this month. Overall employment, however, was slightly higher. Firms continued to report a rise in prices for inputs, although these cost increases were less widespread than in previous surveys. The region's manufacturing executives were significantly less optimistic about future activity, with most indicators dipping to their lowest readings in six years.

Growth Stalls This Month

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, dropped from 18.5 in August to -0.4 this month. This is the first negative reading in the index since April 2003, although the index registered a zero reading in June 2005 (see Chart). Twenty-seven percent of the firms reported increased activity this month, down from 35 percent in August. The percentage of firms reporting deteriorating conditions rose from 17 percent in August to 28 percent this month. The new orders and shipments indexes both fell precipitously this month: the new orders index fell 17 points, and the shipments index fell 29 points, both recording their first negative readings since April 2003. Both the



delivery times and unfilled orders indexes edged lower and into negative territory, following slightly positive readings in August.

The reported moderation in manufacturing growth is not as apparent in replies to questions about manufacturing employment. The current employment index improved, increasing three points from its reading in August. Twenty percent of the firms reported increases in employment; 10 percent reported reductions. More firms reported increases in the workweek (19 percent) than reported decreases (14 percent), but the average workweek index fell seven points.

Cost Increases Less Widespread

Respondents reported increased costs for inputs again this month, but increases were not as widespread as in

previous surveys. The prices paid index remained at a relatively high reading of 38 but receded seven points from August. Forty-one percent of the firms reported higher input prices; only 3 percent reported lower prices.

Twenty-seven percent of the firms reported higher prices for final manufactured goods, up slightly from the 25 percent that reported increases last month. The prices received index increased nearly five points this month.

Six-Month Forecast Falls Significantly

Expectations for future manufacturing growth fell sharply this month. Indicators for future activity, new orders, shipments, and employment all declined from their August readings. The future general activity index fell from 7.4 to -0.2, its first negative read-

ing since January 2001 (see Chart). Although remaining positive, the new orders index decreased 13 points, and the shipments index decreased four points. The future employment index fell 12 points, to its lowest reading in four months. Twenty-five percent of the firms expect to increase employment over the next six months; 19 percent expect to decrease employment.

Special Question

In a special question this month, firms were asked about planned capital spending for the upcoming year (see Special Question). In four out of five categories of capital spending, a greater percentage of firms indicated that expenditures would be higher next year than indicated they would be lower. For investment in structures, more firms said spending would be lower (36 percent) than said it would be higher (10 percent). Diffusion indexes for these categories were all lower this month than in December 2005, when the ques-

Special Question (September 2006)

1. Do you expect the following capital expenditure categories in 2007 to be higher than, lower than, or the same as in the current year?

| | % Lower | % Same | % Higher | Sept. 2006 % Diffusion Index* | Dec. 2005 % Diffusion Index* |
|--------------------------------|------------|-----------|-------------|--|---------------------------------------|
| Energy-saving investments | 9.7 | 51.6 | 25.8 | 16.1 | 25.6 |
| Computers and related hardware | 18.3 | 45.2 | 25.8 | 7.5 | 13.5 |
| Non-computer equipment | 23.7 | 38.7 | 26.9 | 3.2 | 12.1 |
| Software | 20.4 | 46.2 | 23.7 | 3.2 | 8.1 |
| Structures | 35.5 | 43.0 | 9.7 | -25.8 | 2.7 |

* Percentage of firms reporting higher expected spending minus the percentage reporting lower expected spending.

tion was last asked. The largest decrease was in the investment in structures category.

Summary

Overall manufacturing conditions in the region are mostly steady, and indicators for general activity, new orders, and employment suggest little or no growth this month. According to responses from this month's survey,

input price pressures, though still evident, are less widespread than in the previous month. However, more firms reported higher prices for their own manufactured goods. Indicators for the next six months suggest that firms are significantly less confident about future conditions this month, and the survey's future indicators are now at their lowest readings since 2001.

| BUSINESS OUTLOOK SURVEY (September 2006) | September vs. August | | | | | Six Months from Now vs. September | | | | |
|--|---|----------|--------------|----------|----------------------------|---|----------|--------------|----------|----------------------------|
| | <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? | 18.5 | 27.3 | 43.0 | 27.7 | -0.4 | 7.4 | 29.4 | 28.2 | 29.6 | -0.2 |
| Company Business Indicators | | | | | | | | | | |
| New Orders | 15.7 | 29.5 | 38.6 | 30.9 | -1.3 | 21.4 | 34.8 | 24.7 | 26.4 | 8.4 |
| Shipments | 22.3 | 25.5 | 40.2 | 32.2 | -6.8 | 19.1 | 39.0 | 22.9 | 24.1 | 14.9 |
| Unfilled Orders | 0.6 | 21.6 | 50.1 | 26.9 | -5.3 | 0.7 | 21.7 | 40.8 | 25.6 | -3.9 |
| Delivery Times | 2.0 | 16.8 | 64.5 | 17.3 | -0.5 | 5.4 | 10.7 | 58.0 | 20.8 | -10.1 |
| Inventories | 5.6 | 26.2 | 51.7 | 22.0 | 4.2 | -2.0 | 22.5 | 39.3 | 25.7 | -3.1 |
| Prices Paid | 45.3 | 41.0 | 52.7 | 2.9 | 38.1 | 47.8 | 47.3 | 32.4 | 10.0 | 37.3 |
| Prices Received | 17.1 | 27.0 | 67.5 | 5.5 | 21.6 | 28.5 | 35.6 | 45.2 | 10.3 | 25.3 |
| Number of Employees | 8.2 | 20.3 | 70.1 | 9.6 | 10.7 | 17.7 | 24.8 | 45.0 | 19.1 | 5.7 |
| Average Employee Workweek | 12.4 | 19.4 | 61.3 | 13.9 | 5.4 | 3.3 | 14.4 | 61.4 | 13.9 | 0.4 |
| Capital Expenditures | -- | -- | -- | -- | -- | 5.9 | 25.2 | 47.3 | 7.9 | 17.2 |

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 September 18, 2006.