



BUSINESS OUTLOOK SURVEY

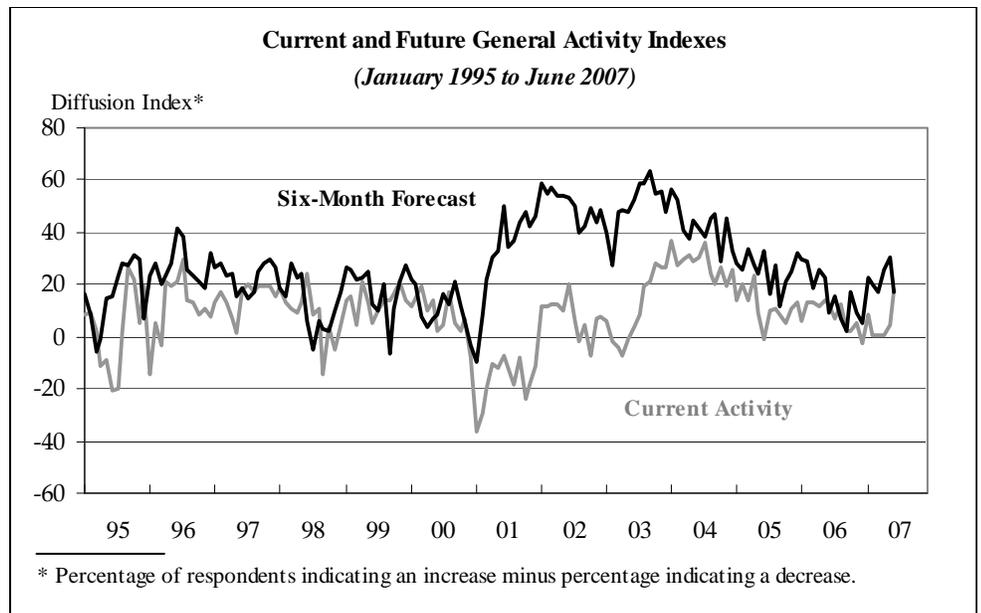
June 2007

Activity in the region's manufacturing sector picked up in June, according to firms polled for this month's *Business Outlook Survey*. Indicators for general activity and new orders improved notably this month. Firms continued to report higher input costs, but price increases for finished manufactured goods are not widespread. The outlook for growth diminished somewhat in June, although manufacturing executives still expect conditions to improve over the next six months.

Growth Picks Up

The survey's broadest measure of manufacturing conditions, the diffusion index of current business activity, increased from 4.2 in May to 18.0 this month, its highest reading since April 2005 (see Chart). The percentage of firms reporting increases (40 percent) exceeded the percentage reporting decreases (22 percent). Demand for manufactured goods, as represented by the survey's new orders index, showed notable improvement this month. The new orders index rose 10 points, to its highest reading since March 2006. The current shipments index fell four points but remained positive. Indexes for delivery times and unfilled orders, although remaining negative, improved from their May readings and are at their highest readings this year.

Evidence of growth in manufacturing is also seen in replies concerning employment. While 62 percent of the firms reported steady employment levels in June, the percentage of firms reporting increases (21 percent) was higher than the percentage reporting decreases (16 percent). The current employment index fell back seven points but remained positive. The average workweek index suggests that hours worked this month remained virtually steady: The percentage of firms reporting



longer hours was nearly the same as that reporting shorter hours.

Cost Pressures Remain

Respondents reported higher costs for inputs again. The percentage of firms reporting higher input prices in June (41 percent) exceeded that of firms reporting lower input prices (11 percent). The prices paid index, however, fell three points, following four consecutive months of increases.

Although input price increases remained widespread, far fewer firms reported higher prices for their own manufactured goods: 19 percent reported higher output prices this month; 13 percent reported lower prices. The prices received index increased three points, although its reading last month was the lowest since August 2003.

Six-Month Indicators Generally Positive But Lower

The outlook for manufacturing growth over the next six months remains generally optimistic, although most future indicators

fell from their May readings. The future general activity index decreased from 30.8 in May to 16.7 this month, its lowest reading this year (see Chart). The indexes for future new orders and shipments moved in opposite directions: The future shipments index rose three points, but the future new orders index fell 11 points. Firms were somewhat less optimistic about future increases in employment: 27 percent expect to increase employment; 16 percent expect to decrease it. The future employment index declined seven points, falling back from a four-month high in May.

In special questions this month, firms were asked about the probability that they would relocate some or all of their operations out of the tri-state region over the next five years (see Special Questions on page 2). The average probability of relocating was 26.9 percent, compared to an average of 15.9 percent when the question was asked last year. The average probability of relocating all operations was 5.4 percent, up from 1.9 percent last year. Firms were also asked

to rank economic factors that were influencing them to stay in or leave the region. The most relevant factors influencing the decision to stay were the heavy investment in fixed capital, the availability of skilled workers, and the proximity to customers. The most important factors influencing the decision to leave were the cost of labor; taxes, subsidies, or regulations; and the availability of skilled workers.

Summary

Indicators for current activity point to an expansion of the region's manufacturing sector, after modest growth in previous months. A large share of firms continued to report cost pressures, but only slightly more firms reported higher prices for their own manufactured goods than reported price decreases. Overall, firms expect improvement in manufacturing business over the next six months, although most six-month indicators were lower than in May.

Special Questions (June 2007)		
1) What is the probability that you will relocate some or all of your operations out of the tri-state region over the next five years?		
	Average:	
	2007	2006
Probability of relocating some operations:	26.9	15.9
Probability of relocating all operations:	5.4	1.9
2) How important are the following factors in influencing your firm's decision to stay in/leave the tri-state region?		
	Very or Most Relevant For Staying (%)*	Very or Most Relevant For Leaving (%)*
Heavily invested in fixed capital	72.4	--
Availability of skilled workers	57.3	63.8
Proximity to customers	48.7	38.3
Costs of labor	45.2	84.4
Taxes/subsidies and/or regulations	33.8	66.0
Cost of energy (electricity, oil, gas, etc.)	33.3	52.2
Proximity to suppliers or raw materials	20.5	21.7
*Firms were asked to provide one of the following categories for each factor: "not relevant," "somewhat relevant," "very relevant," or "most relevant." The responding firms characterized themselves as single-site manufacturing plant (54 percent); headquarters and manufacturing site of multi-site firm (28 percent); single manufacturing plant that is part of a multi-site firm (10 percent); and other (5 percent).		

BUSINESS OUTLOOK SURVEY (June 2007)	June vs. May					Six Months from Now vs. June				
	<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?	4.2	39.8	34.2	21.8	18.0	30.8	41.3	32.7	24.6	16.7
Company Business Indicators										
New Orders	8.7	43.6	30.2	25.3	18.3	30.1	43.3	29.8	24.3	19.1
Shipments	9.3	31.4	39.7	26.5	5.0	25.9	48.6	30.6	19.3	29.3
Unfilled Orders	-9.1	23.7	51.7	24.4	-0.7	4.8	24.3	56.4	19.2	5.1
Delivery Times	-8.2	15.4	61.3	18.9	-3.5	-3.6	13.7	70.2	16.1	-2.4
Inventories	-6.9	21.9	42.8	30.1	-8.2	-8.2	21.3	50.6	27.1	-5.7
Prices Paid	32.3	40.5	48.7	10.7	29.7	42.0	48.4	41.2	10.2	38.2
Prices Received	2.2	18.5	67.3	13.4	5.1	28.1	35.8	51.0	11.7	24.1
Number of Employees	12.9	21.4	61.8	15.8	5.6	17.4	26.5	54.1	16.0	10.4
Average Employee Workweek	-5.5	20.4	57.5	20.7	-0.3	16.7	27.3	53.4	17.4	9.9
Capital Expenditures	--	--	--	--	--	13.3	31.4	51.5	13.3	18.0

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 June 18, 2007.