



# BUSINESS OUTLOOK SURVEY

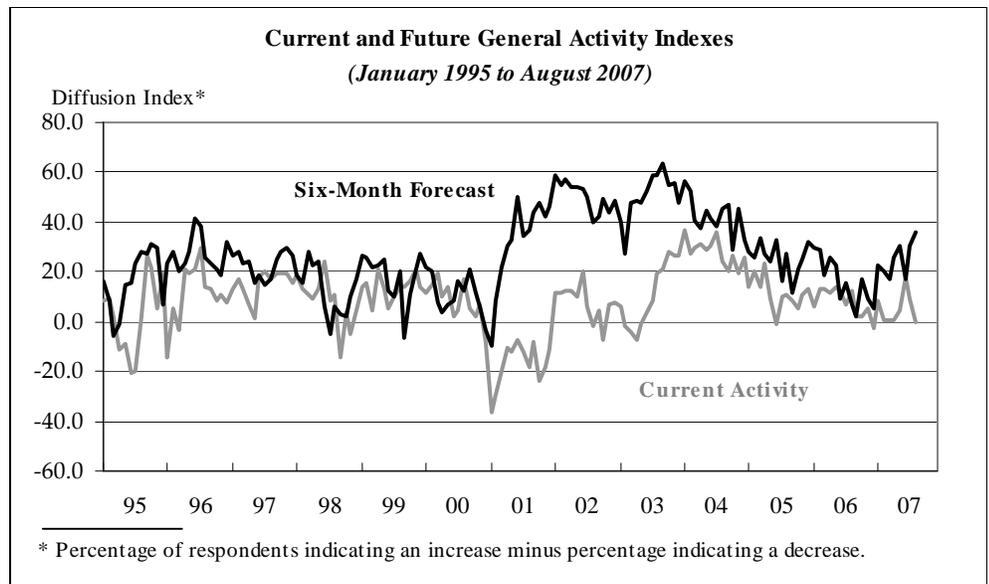
## August 2007

Activity in the region's manufacturing sector was generally steady in August, according to firms polled for this month's *Business Outlook Survey*. Although the index for general activity suggests no overall growth, indicators for new orders, shipments, and employment suggest some growth. Firms continued to report a rise in prices for inputs, although these cost increases were less widespread than in previous months. The region's manufacturing executives were somewhat more optimistic about future activity than they were in July.

### Firms Indicate Overall Conditions Are Mostly Unchanged

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from 9.2 in July to zero this month (see Chart). Fifty-seven percent of the firms reported no change in activity from July, but the percentage of firms reporting increases equaled the number reporting decreases (21 percent). Other broad indicators continued to suggest growth. Demand for manufactured goods, as represented by the survey's new orders index, was positive but slightly weaker this month; the index fell four points. The current shipments index also weakened, declining eight points. Indexes for delivery times and unfilled orders both declined this month, and now both are slightly below zero.

Despite the moderation suggested by other broad indicators, there was marked improvement in manufacturing employment indexes in August. While 65 percent of the firms reported steady employment



levels in August, the percentage of firms reporting increases (27 percent) was significantly higher than the percentage reporting decreases (6 percent). The current employment index jumped 17 points, to its highest reading since September 2004, but most of the increase this month is attributable to the decline in the share of firms reporting employment decreases (from 18 percent to 6 percent). The average workweek index also increased from zero in July to 13.1 this month.

### Price Indexes Moderate This Month

Respondents continue to report higher costs for inputs this month. The prices paid index, however, fell 13 points and has now edged lower in three consecutive months. Twenty-nine percent of the firms reported higher input prices; 14 percent reported lower input prices. Nineteen percent of the firms reported increases in the prices of their own manufactured goods this month; 12 percent

reported lower prices. The prices received index decreased two points.

### Six-Month Forecasts Remain Optimistic

Expectations for manufacturing growth over the next six months showed some improvement this month. The future general activity index increased from 30.4 in July to 36.2, its highest reading since November 2004 (see Chart). The indexes for future new orders and shipments continued to reflect optimism, although they decreased by one and six points, respectively. The future employment index rose five points, following an increase of 20 points in July. Forty-five percent of the firms expect to increase employment over the next six months; 10 percent expect decreased employment.

In special questions this month, manufacturing firms were asked about growth in export business over the past year (see Special Questions). Exports as a percent of sales have increased at 39 percent of

the manufacturing firms; only 7 percent indicated that exports as a share of sales have decreased. Among the firms that indicated that exports were growing, export growth represented about 19 percent of their sales growth. The respondents that indicated an increased export share were predominantly firms producing for the intermediate product, capital goods, and business product markets.

### Summary

The survey's indicator for general activity suggests no overall growth in the region's manufacturing sector this month. Indexes for new orders, shipments, and employment all remained positive, however, and suggest some continuing growth. Price indexes suggest reduced cost pressures in recent months, and in August, the percentage of firms reporting higher prices for their own manufactured goods was only slightly above the percentage reporting decreases. On balance, manufacturing executives expect growth in business over the next

### Special Questions (August 2007)

1. Over the past year, have exports as a share of your total sales:

	%	%
Increase substantially	10.0	
Increased modestly	28.6	
<i>Increased subtotal</i>		38.6
Stayed the same		54.3
Decreased modestly	5.7	
Decreased substantially	1.4	
<i>Decreased subtotal</i>		7.1
Total		100.0

2. If your exports are currently growing how would you complete the following: About \_\_\_% of my sales growth is attributable to exports.

Average response: 18.9 %

six months, and they continue to be more optimistic about future employment growth.

<b>BUSINESS OUTLOOK SURVEY</b> <b>August 2007</b>	August vs. July					Six Months from Now vs. August				
	<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>9.2</b>	20.5	57.2	20.5	<b>0.0</b>	<b>30.4</b>	48.9	33.5	12.8	<b>36.2</b>
Company Business Indicators										
New Orders	<b>11.3</b>	28.8	47.5	21.7	<b>7.1</b>	<b>42.9</b>	54.6	27.8	13.1	<b>41.5</b>
Shipments	<b>20.3</b>	33.4	45.0	21.0	<b>12.4</b>	<b>43.6</b>	50.7	31.4	13.5	<b>37.2</b>
Unfilled Orders	<b>3.2</b>	15.7	59.2	17.8	<b>-2.1</b>	<b>15.5</b>	21.8	58.2	15.4	<b>6.3</b>
Delivery Times	<b>-1.1</b>	11.7	71.4	13.8	<b>-2.1</b>	<b>5.2</b>	15.3	62.1	17.3	<b>-2.0</b>
Inventories	<b>0.8</b>	18.4	57.3	23.2	<b>-4.8</b>	<b>-3.2</b>	14.2	56.0	26.0	<b>-11.8</b>
Prices Paid	<b>28.1</b>	29.4	54.7	14.0	<b>15.4</b>	<b>42.5</b>	47.3	41.7	6.2	<b>41.1</b>
Prices Received	<b>8.8</b>	18.8	67.1	11.9	<b>6.8</b>	<b>25.0</b>	26.4	60.8	5.8	<b>20.6</b>
Number of Employees	<b>4.1</b>	26.9	65.4	5.7	<b>21.2</b>	<b>30.1</b>	44.7	37.6	9.7	<b>35.0</b>
Average Employee Workweek	<b>0.0</b>	20.5	71.9	7.4	<b>13.1</b>	<b>21.4</b>	20.2	61.8	9.3	<b>10.9</b>
Capital Expenditures	--	--	--	--	--	<b>18.8</b>	35.5	50.3	9.2	<b>26.3</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 August 13, 2007.