



BUSINESS OUTLOOK SURVEY

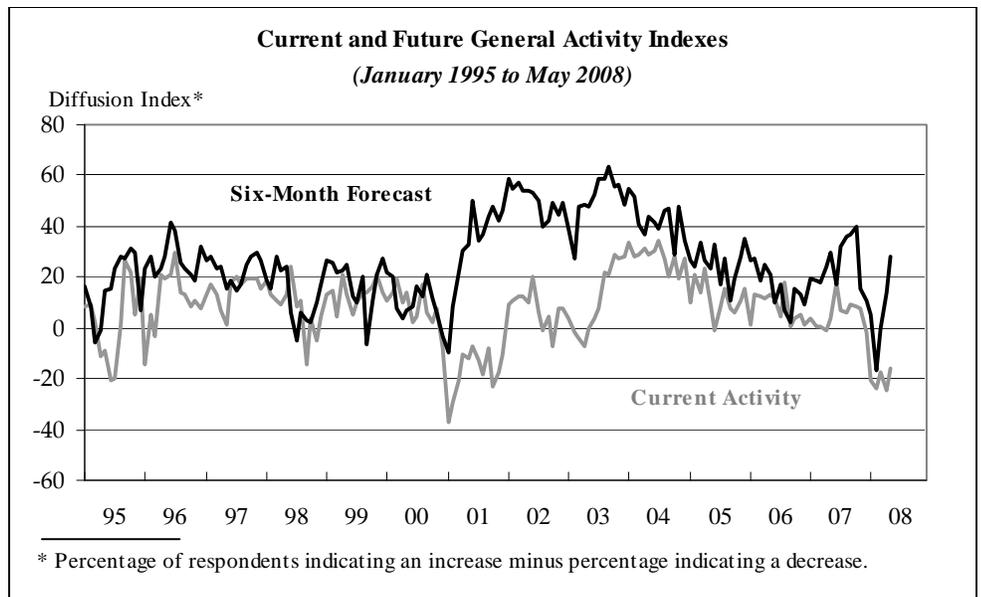
May 2008

Activity in the region's manufacturing sector showed continued weakness this month, according to firms polled for the May *Business Outlook Survey*. Indexes for general activity, new orders, and employment remained negative but were higher than in April. Despite the overall weakness in current activity, a significant share of the manufacturers continued to report price pressures, and more firms reported higher prices for their own products. Also this month, the region's manufacturing executives were more optimistic about future activity; the survey's future indicators have improved considerably over the past two months.

Most Indexes Less Negative This Month

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from -24.9 in April to -15.6 this month, the highest reading in five months (see Chart). Forty-five percent of the firms reported no change in activity from April, but the percentage of firms reporting decreases (34 percent) remained greater than the percentage reporting increases (18 percent). Other broad indicators paralleled the increase in the general activity index this month. Demand for manufactured goods, as represented by the survey's new orders index, remained negative but increased from -18.8 to -3.7. The current shipments index increased from -8.0 to 2.2, its first positive reading in five months. Indicative of continuing weakness, the indexes for unfilled orders and delivery times were both negative this month.

Indicators for employment and hours worked paralleled the other broad indicators. The current employment index rose



from -11.1 to -1.0, its fourth negative reading in five months but a 10-point improvement over last month. The percentage of firms reporting an increase in employment (13 percent) was nearly equal to the percentage reporting a decrease (14 percent). The average workweek index remained negative for the fifth consecutive month but rose seven points.

Manufacturers Report Higher Prices

A significant share of the firms reported higher prices, both for inputs and their own products. Sixty-one percent of manufacturers reported higher input prices this month, up from 55 percent in April. The prices paid index edged up slightly, from 51.6 to 53.8. Price increases for the manufacturers' own products remained widespread. Forty-three percent of the firms reported increased prices for their own goods this month, up from 38 percent in April; 11 percent reported lower prices. The prices received index in-

creased one point, to 31.6, its highest reading since January.

Six-Month Outlook Improves

The future general activity index rose sharply, from a reading of 13.7 in April to 28.2, its highest level in seven months (see Chart). Forty-five percent of firms expect growth in activity over the next six months; 16 percent expect a decline. The indexes for future new orders and shipments also improved this month, up 23 points and 20 points, respectively. On balance, firms expect to increase employment levels over the next six months. The percentage of firms expecting to add workers (24 percent) is greater than the percentage expecting to

Released: May 15, 2008, 10:00 a.m. ET

The June release of the *Business Outlook Survey* will be on Thursday, June 19, at 10 a.m. ET.

make cuts (9 percent). The future employment index increased 15 points, to its highest reading in four months.

In special questions this month, firms were asked about their recent experience filling job openings (see Special Questions). Fifty percent of the firms said they had recently experienced problems filling job openings because applicants lacked sufficient skills. This was a decrease from the April 2007 number (the percentage of firms experiencing this problem had risen over the previous two years in which the question was asked). However, a somewhat higher percentage of firms indicated that they had no openings this year. Similar to last year, the most frequently cited skills that applicants lacked were skills in the use of production machines or tools and specific plant and system operator skills.

Summary

The region's manufacturing sector showed continued weakness in May, although most current indicators suggested more moderate declines. The survey's current indicators for

activity, new orders, employment, and average hours worked remained negative but increased from lower readings in April. Cost pressures remain widespread, and a larger share of firms reported price increases for

their own manufactured goods this month. A significant improvement to the manufacturers' six-month outlook in May lends weight to the idea that the current indicators may have bottomed out.

Special Questions (May 2008)

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

	May 2008	April 2007	March 2006	April 2004
Yes	50.0%	64.3%	51.4%	42.0%
No	34.5%	22.6%	37.2%	36.1%
Have had no openings	15.5%	13.1%	11.4%	21.9%
Total	100.0%	100.0%	100.0%	100.0%

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

	Percent choosing specific skill category*	
	2008	2007
Skills in the use of production machines or tools	85.7%	76.7%
Specific plant and system operator skills	71.8%	69.5%
Basic skills (reading, writing, math)	33.0%	48.0%
Supervisory, management, or admin. skills	30.8%	57.1%
English language skills	21.0%	25.0%
Computer skills	13.0%	9.1%

* Totals sum to more than 100% because each respondent could select multiple categories.

BUSINESS OUTLOOK SURVEY May 2008	May vs. April					Six Months from Now vs. May				
	<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?	-24.9	18.4	45.4	34.0	-15.6	13.7	44.5	31.6	16.4	28.2
Company Business Indicators										
New Orders	-18.8	24.8	44.7	28.6	-3.7	16.6	52.3	28.9	12.8	39.6
Shipments	-8.0	29.5	41.0	27.3	2.2	16.0	44.7	41.1	9.1	35.6
Unfilled Orders	-16.8	8.8	63.2	28.0	-19.1	-11.9	20.6	65.1	8.3	12.3
Delivery Times	4.2	9.8	67.5	22.6	-12.8	-10.4	8.8	77.2	11.3	-2.5
Inventories	-26.2	14.7	57.6	27.7	-13.1	-13.1	16.7	52.4	27.3	-10.6
Prices Paid	51.6	60.8	32.2	7.0	53.8	55.3	67.3	20.7	11.4	56.0
Prices Received	30.9	42.9	44.6	11.3	31.6	33.4	42.1	38.5	15.3	26.8
Number of Employees	-11.1	13.0	72.9	14.0	-1.0	0.2	24.2	60.9	8.7	15.5
Average Employee Workweek	-12.3	10.8	71.8	16.4	-5.6	-9.2	20.1	64.5	10.8	9.2
Capital Expenditures	--	--	--	--	--	13.8	35.3	41.1	15.3	19.9

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 May 13, 2008.