



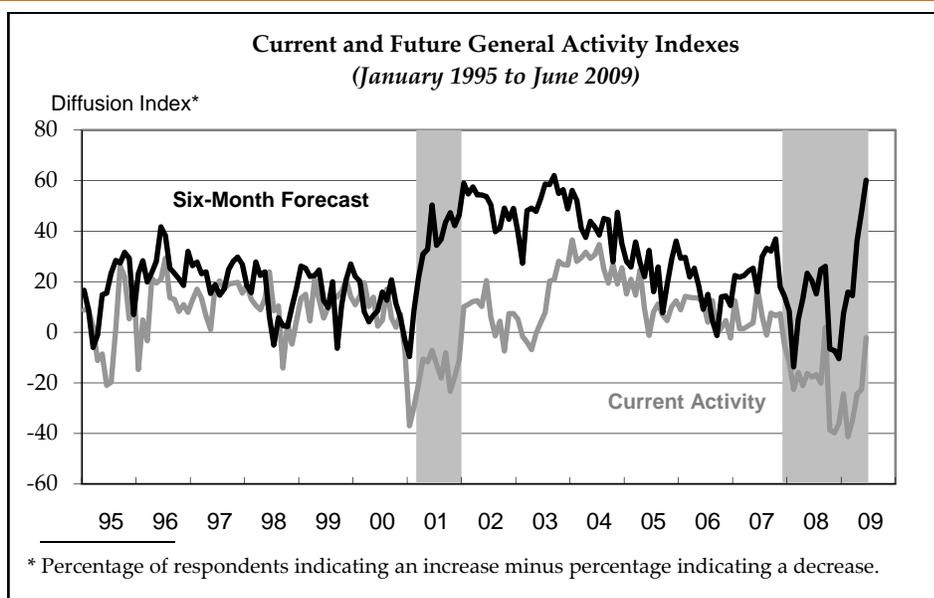
BUSINESS OUTLOOK SURVEY

June 2009

Declines in the region's manufacturing sector were much less in evidence in June, according to results for this month's *Business Outlook Survey*. Indexes for general activity, new orders, and shipments showed notable improvement, suggesting recent declines have lessened dramatically. Indicative of ongoing weakness, however, firms reported sustained declines in employment and work hours this month. Most of the survey's broad indicators of future activity showed continued improvement, suggesting that the region's manufacturing executives are becoming more optimistic that a recovery in business will occur over the next six months.

Current Indicators Reflect Near Steady Levels of Activity

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from -22.6 in May to -2.2 this month, its highest reading since September 2008 when the index was positive for one month (the index has been negative for 18 of the past 19 months, a span that corresponds to the current recession; see Chart). Firms are nearly evenly divided among those indicating increases (30 percent), decreases (32 percent), and no change (35 percent). The new orders and shipments indexes showed parallel increases this month, both rising 21 points, to -4.8 and 2.1, respectively. Although remaining negative, the survey's current inventory index rose for the third consecutive month, increasing 13 points; the index is now 40 points above its record low reading in March. The survey's indexes for delivery times and unfilled orders suggest continued weakness, however, with their negative readings showing little change from last month.



Firms continue to report employment losses and declines in work hours. The current employment index remained at a relatively weak -21.8, although it increased five points from May. Still, 31 percent of firms reported declines in employment this month; only 10 percent reported increases. The average workweek index weakened this month: It fell three points, to -26.6

Price Indexes Suggest Less Widespread Declines

Firms reported less widespread declines in the prices paid for inputs and the prices received for their own manufactured goods. Indexes for prices paid and prices received increased 10 points and 17 points, respectively, but still remain in negative territory. Eighteen percent of the firms reported paying lower prices for inputs (down from 24 percent last month). Only 5 percent reported paying higher prices this month. Over 22 percent of the firms reported receiving lower prices for their

own manufactured goods; 6 percent reported receiving higher prices.

Six-Month Indicators Show Continued Improvement

Broad indicators of future activity showed significant improvement this month. The future general activity index remained positive for the sixth consecutive month and increased markedly from 47.5 in May to 60.1, its highest reading since September 2003 (see Chart). The index has now increased 71 points since its trough in December. The indexes for future new orders and shipments each improved 12 points this month. For the second consecutive month the percentage of firms expecting employment to increase over the next six months exceeded the percentage expecting declines (21 percent versus 8 percent). The future employ-

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ment index improved three points. The future workweek index increased 24 points. Firms' forecast for future capital spending remains lackluster: The share of firms expecting higher capital spending over the next six months (21 percent) is nearly the same as the percentage expecting decreases (19 percent).

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). The average probability of relocating was 20.2 percent, a decline from 26.9 two years ago. The average probability of relocating all operations was 5.4 percent, which was unchanged from two years ago. Firms were also asked to rank the factors that were influencing them to leave the region. The two most important factors influencing the decision to leave were the cost of labor; and taxes, subsidies, or regulations.

Summary

According to respondents to the June survey, declines in the region's manufacturing sector diminished significantly this month.

Indicators for general activity, new orders, and shipments are suggesting steadier levels of activity, in contrast with the series of continuous large declines suggested in previous surveys. Indicative of overall weakness, however, firms still reported declines in employ-

ment and the prices of manufactured products. A growing number of firms expect conditions to improve over the next six months, and for the second consecutive month, more firms expect to expand employment over the next six months.

Special Questions (June 2009)			
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 Probability (%)		
	2009	2007	2006
Probability of relocating some operations:	20.2	26.9	15.9
Probability of relocating all operations:	5.4	5.4	1.9
2) How important are the following factors in influencing your firm's decision about leaving the tri-state region?			
	Very or Most Relevant For Leaving (% of respondents)*		
	2009	2007	
Cost of labor	73.4	84.4	
Taxes/subsidies and/or regulations	67.9	66.0	
Heavily invested in fixed capital	58.7	--	
Availability of skilled workers	55.6	63.8	
Cost of energy (electricity, oil, gas, etc.)	54.0	52.2	
Proximity to customers	41.3	38.3	
Proximity to suppliers or raw materials	20.6	21.7	
*Firms were asked to choose one of the following categories for each factor: "not relevant," "somewhat relevant," "very relevant," or "most relevant."			

BUSINESS OUTLOOK SURVEY June 2009	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?	-22.6	30.2	35.4	32.4	-2.2	47.5	65.5	27.2	5.5	60.1
Company Business Indicators										
New Orders	-25.9	29.9	34.9	34.7	-4.8	46.5	62.0	29.4	3.4	58.6
Shipments	-19.0	32.5	37.0	30.4	2.1	45.7	61.7	29.6	4.3	57.4
Unfilled Orders	-18.4	9.5	61.3	29.2	-19.6	16.7	28.3	66.0	2.7	25.6
Delivery Times	-18.1	4.2	69.7	23.1	-18.9	-5.7	12.1	76.0	6.6	5.5
Inventories	-28.6	13.1	53.9	28.4	-15.3	-13.4	17.9	52.4	24.5	-6.6
Prices Paid	-22.8	5.2	75.4	18.1	-13.0	19.1	26.9	59.2	7.0	19.9
Prices Received	-33.8	5.7	70.2	22.3	-16.6	-1.6	15.9	64.7	13.8	2.0
Number of Employees	-26.8	9.6	57.2	31.4	-21.8	10.0	20.5	63.1	7.7	12.8
Average Employee Workweek	-23.2	7.8	56.7	34.4	-26.6	13.6	37.6	55.5	0.0	37.6
Capital Expenditures	--	--	--	--	--	-0.2	21.0	44.5	19.3	1.7

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 16, 2009.