



# BUSINESS OUTLOOK SURVEY

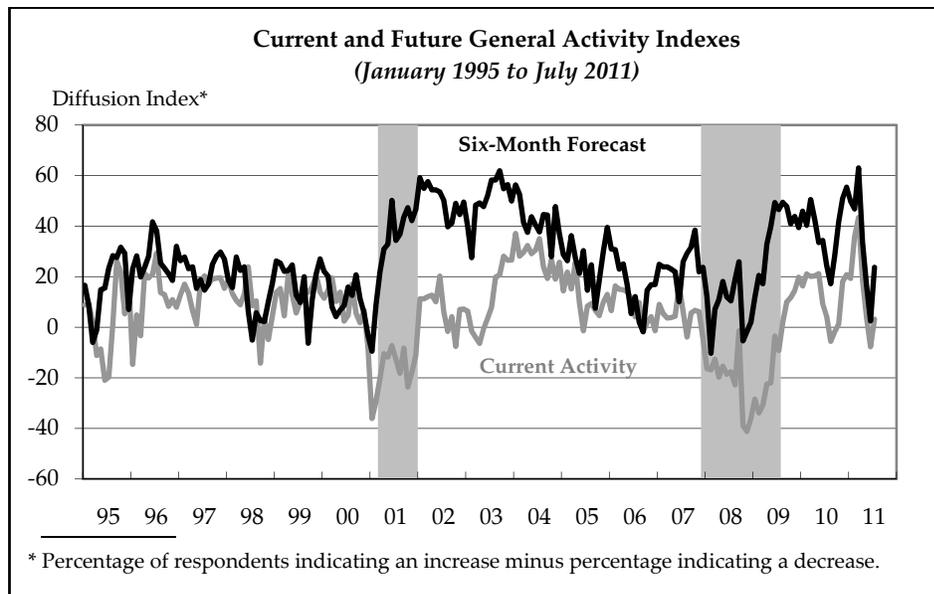
July 2011

Responses to the *Business Outlook Survey* suggest that regional manufacturing activity remained weak in July. The survey's indicators for activity and new orders, which had turned negative last month, recovered somewhat but are at very low positive readings. Firms indicated that employment grew modestly while the average workweek lessened. Indexes for prices show a continuing trend of moderating price pressures. The broadest indicator of future activity improved markedly this month, rebounding from its lowest reading in 31 months in June.

## Indicators Suggest Activity Is Near Steady

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased to 3.2 from -7.7 (see Chart). The demand for manufactured goods, as measured by the current new orders index, improved from last month but suggests flat demand: The index rose 8 points to a reading of zero, and the percentage of firms reporting increases was equally matched by the percentage reporting decreases (28 percent). The current shipments index remained slightly positive but virtually unchanged from June.

Firms' responses suggest a slight improvement in the labor market compared to June. The current employment index increased 5 points and remained positive for the 11th consecutive month. About 22 percent of the firms reported an increase in employment, up slightly from 14 percent last month. Slightly more firms reported a shorter workweek (21 percent) than reported a longer one (15 percent) and the workweek index was down 7 points.



## Price Pressures Show Further Moderation

Diffusion indexes for prices paid and prices received were lower this month and suggest a continued trend of moderating price pressures. The prices paid index declined 2 points, following a sharp drop of 22 points last month. Still, one-third of the firms reported higher prices for inputs this month, and 8 percent reported a decline. Only slightly more firms reported a rise in prices for manufactured goods (18 percent) than reported declines (17 percent). The prices received index decreased 3 points, its third consecutive monthly decline.

## Six-Month Indicators Rebound

The survey's indicators for future activity showed notable improvement this month. The future general activity index increased 21 points but still remained well below average readings in the first quarter (see Chart). The indexes for future new orders and shipments

also increased, 20 and 16 points, respectively. The index for future employment increased more moderately, by 5 points, and also remains well below average readings in the first quarter. More firms expect to increase employment over the next six months (30 percent) than expect to decrease employment (20 percent).

In special questions this month, firms were asked about recent trends in demand for their manufactured goods and to characterize the reasons for any slowing. Slightly over half of the firms indicated that demand had increased recently, while 26 percent indicated that demand had slowed. Of those firms that experienced some slowing, the most frequently cited reasons were increased uncertainty and higher prices for energy,

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commodities, and transportation. Firms were also asked about their forecast for production in the third quarter compared to the second quarter. The median forecast called for a meager 0.5 percent increase in production, with a large share of firms situated at either end of the range of growth rates. Over 21 percent of the firms expected increases of greater than 4 percent and 18 percent expected decreases of more than 4 percent.

### Summary

According to respondents to the July *Business Outlook Survey*, the region's manufacturing sector remained weak in July. The survey's indicators suggested flat demand for manufactured goods this month, while shipments and employment grew only slightly. Price measures suggested continued moderation in price pressures. The broadest indicators for future activity rebounded after falling sharply last month and firms are somewhat more optimistic about their hiring plans over the next six months.

<b>Special Questions (July 2011)</b>		
<b>1. Over the past two months, how would you characterize the demand for your manufactured products?</b>		
	%	subtotals
Increased significantly	9.4	50.6
Increased moderately	41.2	
No change	20.0	
Decreased moderately	21.2	25.9
Decreased significantly	4.7	
<b>2. If you have experienced a recent slowing in growth in demand, to which factors do you attribute this? *</b>		
Increased economic uncertainty	82.4	
Higher prices for energy, commodities, & transportation	44.1	
Seasonal factors	35.3	
The ending of fiscal stimulus spending	11.8	
<b>3. What percentage change in your firm's production do you anticipate in the third quarter of 2011 over the second quarter?</b>		
Increase of more than 4%	21.2	49.5
Increase of 3-4%	2.4	
Increase of 2-3%	5.9	
Increase of 1-2%	15.3	
Increase of less than 1%	4.7	
No change	10.6	37.7
Decline of less than 1%	2.3	
Decline of 1-2%	7.1	
Decline of 2-3%	9.4	
Decline of 3-4 %	1.2	
Decline of 4% or more	17.7	
Median increase: 0.5 %		
*Percentages add to more than 100% due to respondents choosing more than one factor.		

<b>BUSINESS OUTLOOK SURVEY July 2011</b>	July vs. June					Six Months from Now vs. July				
	<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?	-7.7	27.5	46.8	24.3	<b>3.2</b>	<b>2.5</b>	42.3	33.3	18.6	<b>23.7</b>
Company Business Indicators										
New Orders	-7.6	27.7	44.0	27.7	<b>0.1</b>	<b>7.9</b>	48.0	28.0	20.3	<b>27.8</b>
Shipments	<b>4.0</b>	22.8	56.6	18.5	<b>4.3</b>	<b>6.6</b>	42.7	33.9	19.8	<b>23.0</b>
Unfilled Orders	-16.3	8.8	63.4	25.1	-16.3	-9.6	22.9	56.2	20.0	<b>2.9</b>
Delivery Times	-20.5	12.5	80.2	6.2	<b>6.4</b>	-11.4	15.5	66.0	12.1	<b>3.4</b>
Inventories	-8.5	27.9	45.2	26.5	<b>1.4</b>	-16.8	24.9	51.6	19.9	<b>5.0</b>
Prices Paid	<b>26.8</b>	32.6	59.9	7.5	<b>25.1</b>	<b>27.5</b>	44.6	43.4	5.9	<b>38.7</b>
Prices Received	<b>4.4</b>	17.7	65.1	16.6	<b>1.1</b>	<b>2.5</b>	22.5	61.4	14.2	<b>8.3</b>
Number of Employees	<b>4.1</b>	22.2	64.5	13.3	<b>8.9</b>	<b>5.5</b>	29.6	46.9	19.5	<b>10.1</b>
Average Employee Workweek	<b>1.9</b>	15.4	61.6	20.9	-5.4	-1.6	15.5	68.9	11.3	<b>4.1</b>
Capital Expenditures	--	--	--	--	--	<b>12.9</b>	34.1	43.4	16.0	<b>18.1</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 July 19, 2011.