



BUSINESS OUTLOOK SURVEY

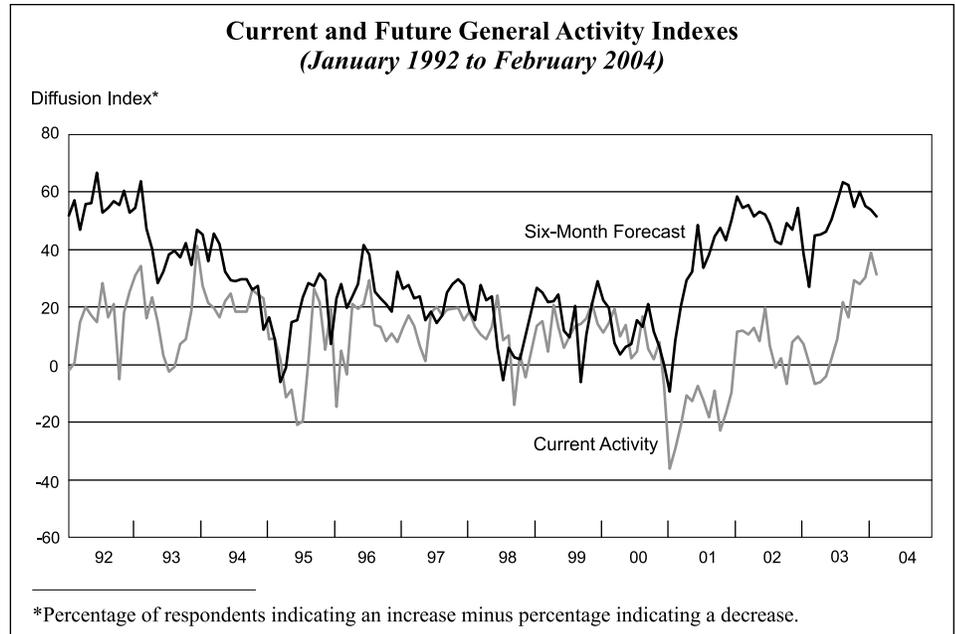
February 2004

Activity in the region's manufacturing sector continues to expand, according to firms surveyed for this month's *Business Outlook Survey*. Although indicators for general activity, new orders, and shipments fell from their January readings, they remain at relatively high levels. For the fifth consecutive month more firms reported increases in employment than reported declines, and a larger percentage of firms reported higher average work hours this month. Firms reported an increase in input prices again this month and some upward pressure on prices of their own manufactured goods. Expectations for overall growth over the next six months remain very positive, and about one-third of the firms expect employment to increase.

Growth Continues but Some Indicators Fall Back

The diffusion index of current general activity, the survey's broadest measure of manufacturing conditions, decreased from 38.8 in January to 31.4 and has now been positive for nine consecutive months (see chart). Although some current indicators fell this month, they continue to reflect solid growth in the region's manufacturing sector. The new orders index fell nearly 9 points, and the shipments index fell almost 14 points. Still, both indicators remain at relatively high levels. Firms reported an increase in unfilled orders and essentially steady inventories this month. The delivery times index, at 7.2, is at its highest reading since January 1999.

Manufacturing employment at the firms in our survey has improved recently. Although the current employment index fell this month, the continued positive reading suggests that labor market conditions have stabilized, especially in the last three months. Notably, the average work-week diffusion index increased nearly 11 points, to its highest reading in the history of the series.



Price Indexes Drift Higher

Firms reported higher costs again this month. Over 46 percent reported higher input prices, and only 3 percent reported lower prices. The prices paid diffusion index increased for the seventh consecutive month. Twenty-four percent of firms reported that prices for their own manufactured goods were higher this month, while 5 percent reported lower prices. The current prices received index is now at its highest reading since January 1995.

Firms' expectations regarding future price increases continue to drift higher. The future prices paid index has now risen for six consecutive months. Both the future prices paid and prices received indexes have increased 13 points since December.

Manufacturers Are Still Optimistic

Overall expectations for the next six months remain optimistic, although a few indicators were slightly lower this month than last. The future general activity index

decreased from 53.9 in January to 51.4 this month, but it remains at a relatively high level (see chart). The future new orders index actually increased 6 points and the future shipments index was mostly unchanged. Firms expect unfilled orders to increase over the next six months, and delivery times to be longer. More firms (39 percent) expect inventories to increase over the next six months than to decrease (25 percent). The future inventory index has trended higher over the last six months and is now at its highest reading since 1984. In response to the special questions this month (see Special Questions), 37 percent of the firms expect to increase inventories over the next three months and 48 percent expect to increase inventories over the next six months. The most important factors cited by firms for deciding on inventory adjustments were new orders, deliveries to customers, change in customer inventories, and seasonal conditions.

Firms' expectations regarding employment improved slightly this month: the fu-

Special Questions February (2004)

1. For each time period (the next 3 months and the next 6 months), how much do you expect inventories of your finished goods to change?

	3 mo.	6 mo.
Increase more than 10%	9.6%	7.0%
Increase 5-10%	8.4%	18.6%
Increase less than 5%	19.3%	22.1%
Stay at current levels	37.3%	24.4%
Decline less than 5%	13.4%	10.5%
Decline 5-10%	4.8%	8.1%
Decline more than 10%	7.2%	9.3%
Total	100%	100%

2. What are **the three most important factors** to your firm in determining short-run changes in inventories of your finished goods?

	% of firms choosing this factor*	% choosing factor as the <i>most important</i>
New orders	70.6%	31.8%
Delivery time to customers	47.1%	18.8%
Change in customer inventories	47.1%	11.8%
Seasonal factors	42.4%	18.8%
Concern about unfilled orders	34.1%	7.1%
Other	18.8%	11.8%

* Percentages total is greater than 100% because firms could choose more than one factor.

ture employment index increased 4 points in February. The percentage of firms expecting to increase employment over the next six months (33 percent) exceeds the percentage expecting to decrease employment (13 percent).

Firms' expectations for capital spending declined only slightly this month: 30 percent indicated they will increase capital spending over the next six months; only 6 percent will decrease such spending.

Summary

Current indicators this month suggest that growth in the region's manufacturing is continuing, but the pace was slightly slower this month. Indicators for general activity, new orders, and shipments, nevertheless, remain at relatively high levels. Respondents to the survey reported that employment and average work hours increased this month, and indexes for both unfilled orders and delivery times indicate expanding manufacturing activity. Firms reported higher prices for inputs, however, and more firms reported higher prices of their own manufactured goods. Manufacturing executives' outlook for growth continued to be favorable, and firms were slightly more optimistic about future employment at their plants.

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Summary of Returns February 2004

	February vs. January					Six Months from Now vs. February				
	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	38.8	42.3	46.9	10.8	31.4	53.9	60.7	26.5	9.3	51.4
Company Business Indicators										
New Orders	36.5	40.7	46.5	12.8	27.8	49.8	63.8	25.7	8.5	55.3
Shipments	33.1	35.2	46.9	15.9	19.3	49.7	58.7	28.0	10.2	48.6
Unfilled Orders	10.7	20.4	62.3	16.0	4.4	17.2	33.6	51.7	7.9	25.7
Delivery Times	-2.0	19.2	68.7	12.1	7.2	11.5	21.5	67.9	7.9	13.6
Inventories	-3.9	24.9	50.3	24.1	0.8	8.7	39.1	30.9	25.2	14.0
Prices Paid	35.3	46.2	49.9	2.5	43.7	44.3	57.2	37.7	3.5	53.8
Prices Received	9.4	23.6	70.2	4.7	18.9	29.8	42.2	48.5	4.9	37.3
Number of Employees	17.5	20.9	68.9	8.4	12.5	15.1	32.7	51.3	13.2	19.5
Average Employee Workweek	12.9	26.7	63.8	3.1	23.6	16.7	22.0	65.0	6.6	15.4
Capital Expenditures	—	—	—	—	—	26.0	30.1	36.5	6.0	24.1

Notes:

- (1) Items may not add up to 100 percent because of omission of respondents.
- (2) All data seasonally adjusted.
- (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.
- (4) Survey results reflect data received through February 13, 2004.