



BUSINESS OUTLOOK

SURVEY

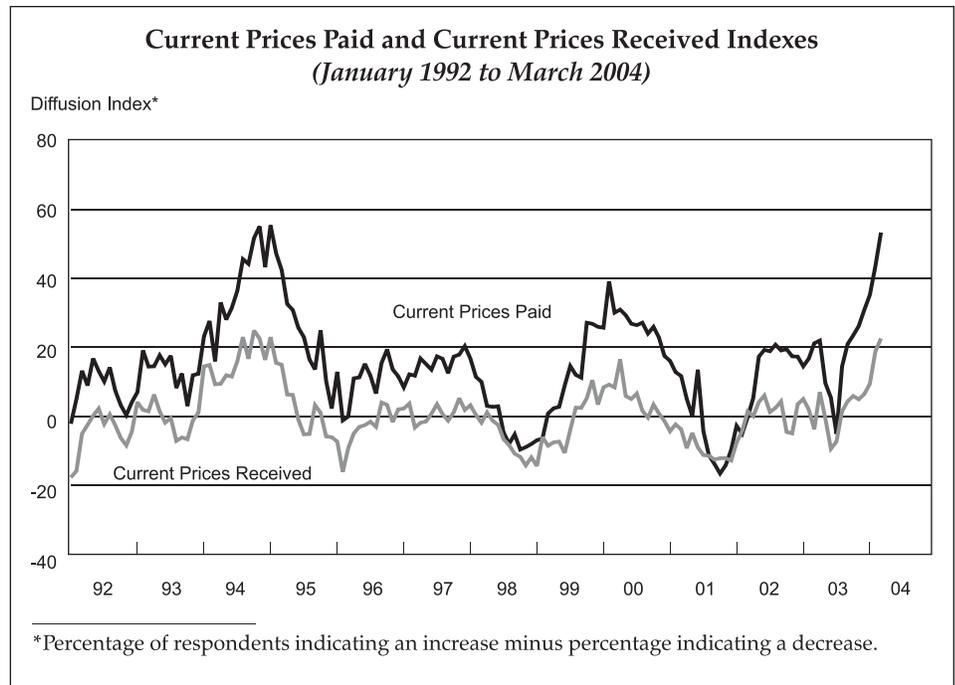
March 2004

Activity in the region's manufacturing sector continues to improve, according to firms surveyed for this month's *Business Outlook Survey*. Although indicators for general activity and new orders fell from their February readings, they remain at relatively high levels. The employment index was positive again this month, but gains were modest. Firms reported an increase in industrial prices again this month. Expectations for overall manufacturing growth remain positive, although most indicators continued to fall from their higher readings at the end of last year. Employment plans, however, showed modest improvement this month.

Indicators Decline but Manufacturing Is Still Expanding

The diffusion index of current general activity, the survey's broadest measure of manufacturing conditions, decreased from 31.4 in February to 24.2 this month. The index has been positive for 10 consecutive months. The new orders index declined nearly six points this month, and the current shipments edged only slightly higher. By historical standards the indexes for general activity, new orders, and shipments remain at high levels and continue to suggest solid gains in manufacturing. Both unfilled orders and delivery times continue to rise according to the manufacturers surveyed. The delivery time index is now at its highest reading since March 1973.

On balance, manufacturing employment edged higher again this month. The percentage of firms reporting increased employment (24 percent) is higher than the percentage reporting lower employment (12 percent). The employment diffusion index, now positive for six consecutive months, held close to its reading in February. The average work hours index remains positive but fell about 6 points.



Firms Report Higher Prices

Firms reported higher costs again this month. Over 55 percent of the firms reported higher input prices, and only 2 percent reported lower prices. The prices paid diffusion index has been positive for eight consecutive months and has increased considerably since January (see Chart). The index is now at its highest reading since January 1995.

Twenty-eight percent of the firms reported that prices of their own manufactured goods were higher this month, while 6 percent reported lower prices. The current prices received index edged higher this month (see Chart) and is also at its highest reading since January 1995.

Six-Month Forecast Is Less Optimistic

Expectations remain generally optimistic, but most indicators of future conditions were lower this month. The future

general activity index decreased from 51.4 in February to 36.7 this month. Although the future new orders index fell nearly 22 points, 49 percent of the firms still expect growth in the next six months. The future shipments index decreased more moderately—about 12 points. Firms expect unfilled orders to increase over the next six months, and delivery times are expected to be longer. Firms forecast inventories to remain near their current levels.

Despite the decline in most of the other future indicators, firms' expectations regarding employment improved this month. The future employment index increased from 19.5 to 26.7. Nearly 37 percent of the firms expect employment to rise in the next six months, although 10 percent expect employment to decline.

Firms were asked special questions this month regarding their experience in filling recent job openings (see Special Ques-

Special Questions (March 2004)

1. Have you had any job openings in the last three months?

Yes 73.2% No 26.8%

2. What problems, if any, have you had filling job openings in the past three months?*

Lack of qualified applicants	89.2%
Applicants' salary requirements too high	16.2%
Applicants had other opportunities	13.5%
Other	2.7%

* Total percentage is greater than 100% because some firms chose more than one problem.

3. Have you filled any recent openings with temporary or contract workers?

No	59.5%
Yes, to fill what are usually temp positions	21.5%
Yes, not ready to take on permanent workers in these positions	13.9%
Yes, could not find permanent workers	5.1%

4. Do you expect openings in the next six months?

Yes 76.8% No 23.2%

5. Are you planning to fill any of them with temporary or contract workers?

Yes 32.5% No 67.5%

tions). Seventy-three percent of the firms indicated that they have had job openings in the past three months. The most frequently cited problem in filling such positions is a lack of qualified applicants (89 percent). Nearly 41 percent of the firms indicated that they have filled recent openings with temporary or contract workers. Almost 77 percent of firms anticipate openings over the next six months, although 33 percent of these positions may be filled with temporary or contract workers.

Summary

Indicators continue to point to an expansion of the region's manufacturing sector. Although indicators for general activity and new orders declined this month, they remain at relatively high levels. Respondents also reported that employment increased again this month, although the gains were modest. A growing percentage of firms have been reporting increases in input prices and higher prices of their own manufactured goods. The manufacturing executives' outlook for overall growth was less optimistic this month, although their employment forecast improved modestly.

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Summary of Returns

March 2004

	March vs. February					Six Months from Now vs. March				
	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?	31.4	43.1	38.1	18.8	24.2	51.4	48.6	31.5	12.0	36.7
Company Business Indicators										
New Orders	27.8	43.6	33.3	21.7	21.9	55.3	48.5	28.2	15.0	33.6
Shipments	19.3	43.2	34.0	20.9	22.3	48.6	52.7	22.3	16.4	36.3
Unfilled Orders	4.4	24.9	54.8	16.1	8.8	25.7	23.5	56.6	11.1	12.4
Delivery Times	7.2	24.9	66.7	5.8	19.0	13.6	15.3	66.3	7.8	7.5
Inventories	0.8	14.0	57.1	26.8	-12.8	14.0	22.2	48.9	23.0	-0.8
Prices Paid	43.7	55.8	41.8	2.4	53.4	53.8	57.0	29.9	1.7	55.3
Prices Received	18.9	28.2	63.8	5.6	22.6	37.3	33.8	50.1	5.6	28.2
Number of Employees	12.5	23.9	62.5	11.6	12.3	19.5	36.6	42.4	9.9	26.7
Average Employee Workweek	23.6	31.8	46.2	13.9	17.9	15.4	25.5	51.9	12.8	12.7
Capital Expenditures	—	—	—	—	—	24.1	27.3	32.9	2.9	24.4

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 March 12, 2004.