



BUSINESS OUTLOOK SURVEY

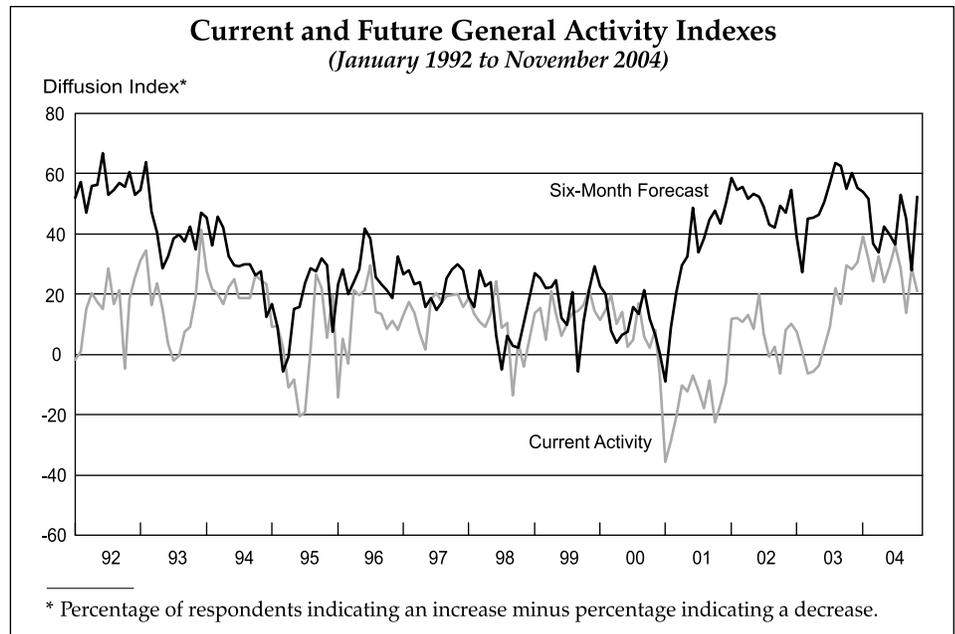
November 2004

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 October readings, they remain at relatively high levels. Firms continued to report a rise in prices for inputs and finished goods, although the price indexes for both fell slightly this month. The region's manufacturing executives were significantly more optimistic this month about future manufacturing growth than in October.

Current Indicators Reflect Continued Expansion

The diffusion index of current activity, the survey's broadest measure of overall manufacturing conditions, decreased from 28.5 in October to 20.7 in November. The index has remained positive for 18 consecutive months (see Chart). The percentage of firms reporting an increase in activity (35 percent) was down slightly from October (40 percent). The survey's other broad indicators remained positive but declined slightly. The new orders index fell almost three points, and the shipments index fell four points. Unfilled orders remained steady; about the same percentage of firms (17 percent) reported increases as decreases. The inventory index declined nine points and fell into negative territory for the first time in eight months. The percentage of firms reporting declines in inventories (22 percent) exceeded the percentage reporting increases (16 percent).

Continued expansion in manufacturing is evident in responses regarding employment. The percentage of firms reporting increased employment (20 percent) was higher than the percentage reporting lower employment (2 percent). The employment diffusion index, positive for 14 months, rose three points. About the same percentage of firms (18 percent) reported longer work hours and shorter work hours.



Price Pressures Moderate Slightly

Firms continued to report higher production costs this month. Fifty-six percent of the firms reported higher prices for inputs; but the diffusion index for prices paid declined three points to its lowest reading in three months.

Firms also reported higher prices for their own manufactured goods. Nearly 36 percent reported higher prices for their manufactured products; 8 percent reported lower prices. The diffusion index for current prices received, however, declined five points and is at its lowest reading in five months.

In a special question this month, firms were asked about their expectations for further cost increases next year (see Special Questions). Ninety percent of the executives polled expect raw material prices (including energy) to increase next year, with the largest percentage (40 percent) indicating they anticipate a rise between 5 to 10 percent. Twenty-four percent of the firms, however, expect raw material and

energy costs to rise more than 10 percent. Almost all of the firms (96 percent) expect health-benefit costs to rise next year; over half of the respondents expect these costs to rise more than 10 percent. With regard to wages and salaries, 90 percent of the firms expect these costs to rise between 1 to 5 percent next year. Firms were also asked whether the expected rise in input costs has lowered production plans for 2005. Two-thirds of the firms indicated that they have not altered production plans; 30 percent indicated that production will be lower because of these expected higher costs.

Manufacturing Optimism Boosted

Overall expectations for the next six months improved markedly this month. The future general activity index jumped from 27.6 to 52.1, near its reading three months ago (see Chart). Nearly 60 percent of the manufacturing executives expect increases in activity over the next six months, compared to 40 percent in the previous month. Other future indicators

Special Questions (November 2004)

1. What percentage change in costs do you expect for the following categories in 2005?

	No change	Increase		
		1-5%	5-10%	> 10%
Raw materials (including energy)	4.0%	26.0%	40.0%	24.0%
Intermediate goods	22.0%	38.0%	28.0%	4.0%
Health benefits	0.0%	8.0%	36.0%	52.0%
Non-health benefits (including pensions)	28.0%	44.0%	20.0%	0.0%
Wages and salaries per worker	4.0%	90.0%	2.0%	0.0%
Professional services and transportation	14.0%	50.0%	26.0%	4.0%

Row totals do not add to 100 percent because some firms did not respond or reported that they expect price decreases (less than 2 percent).

2. To what extent has any expected rise in input costs lowered your production plans for 2005?

Not at all.....	66.0%	Moderately	10.0%	No response.....	4.0%
Slightly	18.0%	Significantly	2.0%	Total	100.0%

showed similar increases: both the future new orders and future shipments indexes jumped 17 points. Moreover, firms expect unfilled orders to rise and delivery times to lengthen over the next six months. Indicators for future delivery times and inventories returned to positive territory

this month.

Expectations regarding future employment showed some improvement this month. The future employment index increased from 23.2 in October to 29.2 in November. A little more than one-third of the firms anticipate adding workers over

the next six months. On balance, firms expect average work hours to increase over the next six months. Thirty-four percent of the firms expect higher capital spending over the next six months, compared with 30 percent last month. The future capital spending index increased about four points this month.

Summary

Although some indicators of current business conditions declined from their readings in October, all indicators point to continued growth in the region's manufacturing sector. At least 35 percent of the firms reported an increase in general activity, new orders, and shipments in November. Employment increased again this month. Price pressures are still evident in firms' survey responses, but price indicators showed a slight moderation. Firms' responses indicate that significant cost increases for raw materials, energy, and health benefits are expected to continue next year. Despite evidence of moderation in the pace of growth this month, manufacturing executives expressed increased optimism about growth over the next six months.

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Summary of Returns

November 2004

	Previous Diffusion Index	November vs. October				Six Months from Now vs. November				
		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?	28.5	35.4	48.4	14.7	20.7	27.6	59.7	27.9	7.7	52.1
Company Business Indicators										
New Orders	24.6	41.4	39.4	19.2	22.1	40.1	64.2	21.5	7.6	56.6
Shipments	28.2	38.9	45.1	14.4	24.5	34.7	61.2	23.1	9.3	51.8
Unfilled Orders	-5.4	16.5	59.8	17.7	-1.2	8.1	31.1	55.6	8.1	22.9
Delivery Times	-0.2	12.7	68.7	17.4	-4.7	-0.2	19.7	61.5	14.8	4.9
Inventories	3.1	16.4	60.5	22.4	-6.1	-9.5	25.9	53.9	16.7	9.2
Prices Paid	57.1	56.1	40.9	2.1	53.9	50.2	58.4	32.3	7.3	51.1
Prices Received	32.7	35.8	56.4	7.8	28.0	38.6	51.8	42.8	5.5	46.3
Number of Employees	14.1	19.7	78.1	2.3	17.4	23.2	33.7	57.9	4.5	29.2
Average Employee Workweek	6.5	18.1	61.4	17.6	0.6	16.3	25.1	59.7	8.5	16.6
Capital Expenditures	—	—	—	—	—	21.1	34.3	35.2	8.8	25.5

Notes:

- (1) Items may not add up to 100 percent because of omission by 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 November 15, 2004.