



# BUSINESS OUTLOOK

## SURVEY

March 2005

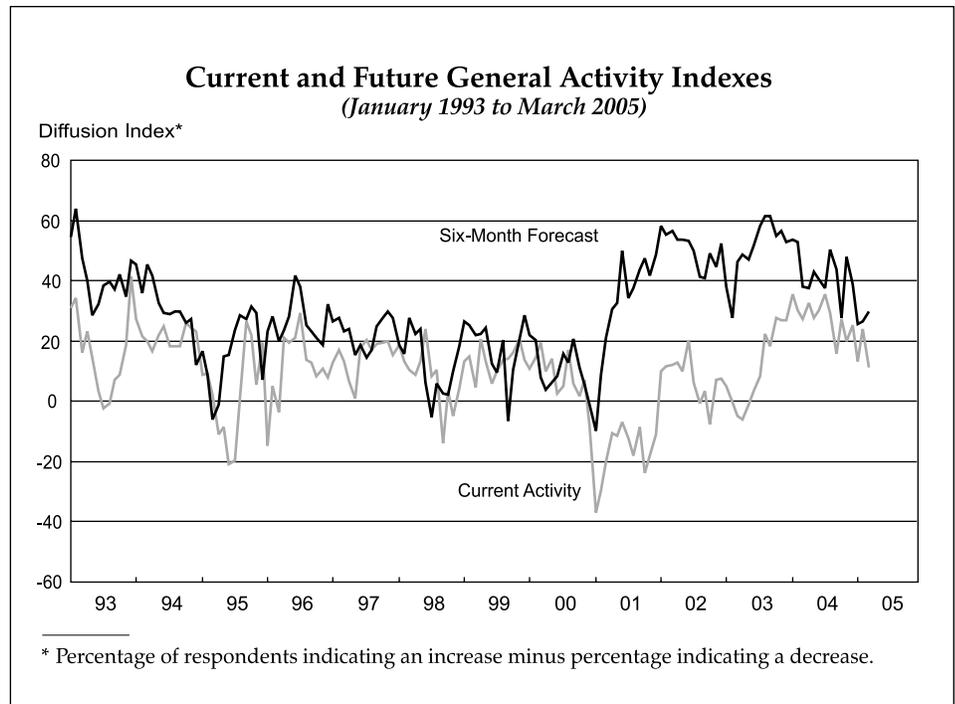
Activity in the region's manufacturing sector continues to expand, but at a slower rate than in February. Indicators for general activity, shipments, and employment show a more moderate pace of growth. Firms continue to report a rise in prices for inputs and for their own finished goods, although the survey's price indicators have moderated from recent highs. The region's manufacturing executives were slightly more optimistic this month than in February.

### Manufacturing Expansion Continues

The diffusion index of current activity, the broadest measure of manufacturing conditions, decreased from 23.9 in February to 11.4 in March. This is its lowest reading in 20 months (see Chart). More firms reported increases in activity (27 percent) than reported decreases (15 percent). A large percentage (58 percent) reported no change in general activity compared to February. The new orders and shipments indexes remained positive this month, but the new orders index increased two points, while the shipments index fell nine points. Indicators for unfilled orders and delivery times changed little from February.

The moderation in manufacturing activity this month is evident in the responses about employment and hours worked. The percentage of firms reporting increased employment was higher than that reporting lower employment for the 18th straight month. But the current employment index fell to its lowest reading in 16 months, and the current workweek index fell to its lowest level in four months.

In special questions this month, firms were asked about the actual level of their inventories over the last three months and the economic factors that influenced them (see Special Questions). Firms reporting higher levels of inventory (41 percent) exceeded those reporting lower levels (27



percent). Of the firms reporting higher levels, 32 percent replied that lower than anticipated sales had a significant effect on inventories; 9 percent indicated that expected higher energy prices had a slight impact on the larger inventories; and 24 percent thought anticipated higher material costs had a slight impact. Among firms reporting lower inventories, 23 percent said that greater than anticipated sales had been a significant factor.

### Price Indexes Moderate

Although firms continue to report higher production costs, the index for input prices fell notably again this month: 36 percent reported higher prices for inputs, substantially lower than in February (49 percent) and January (67 percent). The diffusion index for prices paid is at its lowest reading in 16 months.

Firms continue to report higher prices for their own manufactured goods: 23 percent reported higher prices; 8 percent reported lower. The diffusion index for prices received is at its lowest reading in 11 months. Expectations about future prices moderated this month. The future prices paid index decreased 21 points, and the future prices received index decreased 18 points.

### Manufacturing Expansion Expected to Continue

Overall expectations for the next six months improved slightly in March. The future general activity index increased from 26.5 to 29.8, its highest point in three months but still below readings for most of last year (see Chart). Other future indicators showed similar improvement: the future new orders index increased six points, and the future shipments index increased nine points. The

future inventory index increased notably, from -16.9 in February to 1.0 this month.

The future employment index increased from 11.8 in February to 21.5 in March. On balance, firms that expect average work hours to increase slightly edged out those that expect them to decrease. Firms' capital spending plans have shown some improvement in recent months. The future capital

spending index rose to its highest point since September 2000.

### Summary

Indicators continue to point to expansion of the region's manufacturing sector, although indicators for general activity, shipments, employment, and work hours fell from their readings in February. Firms

continue to report higher costs for inputs and manufactured goods this month, but the survey's price indexes moderated from their recent highs. Most broad indicators of future conditions edged higher this month, with the outlook for employment and capital spending showing notable improvement.

### Special Questions (March 2005)

1. Over the past three months has your actual level of inventories:

Increased 40.5%    Decreased 27.4%    Not changed 32.1%    Total 100%

2. To what extent have any of the factors below influenced your actual level of inventories?

	For those reporting increases:			For those reporting decreases:		
	Significant	Slight	No Effect	Significant	Slight	No Effect
Sales of products less than anticipated	32.4%	8.8%	58.8%	9.1%	9.1%	81.8%
Sales of products greater than anticipated	14.7%	20.6%	64.7%	22.7%	22.7%	54.6%
Anticipation of higher energy costs	0.0%	8.8%	91.2%	0.0%	13.6%	86.4%
Anticipation of lower energy costs	0.0%	0.0%	100.0%	4.5%	4.5%	91.0%
Anticipation of higher material costs	26.5%	23.5%	50.0%	27.3%	13.6%	59.1%
Anticipation of lower material costs	0.0%	5.9%	94.1%	0.0%	9.1%	90.9%
Other	11.7%	5.9%	82.4%	13.6%	0.0%	86.4%

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#### Summary of Returns March 2005

	March vs. February					Six Months from Now vs. March				
	Previous Diffusion Index	Increase	No		Diffusion Index	Previous Diffusion Index	Increase	No		Diffusion Index
			Change	Decrease				Change	Decrease	
What is your evaluation of the level of general business activity?	23.9	26.5	58.4	15.1	11.4	26.5	41.6	37.2	11.8	29.8
Company Business Indicators										
New Orders	11.7	31.3	49.8	18.1	13.2	29.8	46.1	32.3	10.7	35.3
Shipments	23.8	34.4	45.5	19.7	14.7	30.9	51.7	28.2	12.3	39.4
Unfilled Orders	-2.8	15.4	65.8	17.4	-2.1	1.9	21.2	55.9	15.3	5.8
Delivery Times	7.1	12.8	77.9	9.3	3.5	2.5	13.8	65.0	13.7	0.1
Inventories	-7.4	17.6	58.4	22.8	-5.3	-16.9	23.4	48.4	22.4	1.0
Prices Paid	43.5	36.0	57.6	6.4	29.7	63.1	50.2	33.3	8.0	42.2
Prices Received	24.6	22.9	69.5	7.6	15.3	40.1	31.5	50.7	9.2	22.4
Number of Employees	12.3	20.9	68.3	10.8	10.1	11.8	33.9	46.7	12.4	21.5
Average Employee Workweek	11.3	15.8	65.5	13.2	2.6	3.5	16.9	63.3	11.6	5.3
Capital Expenditures	—	—	—	—	—	23.9	34.4	38.1	4.0	30.4

#### 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 14, 2005.