



BUSINESS OUTLOOK

SURVEY

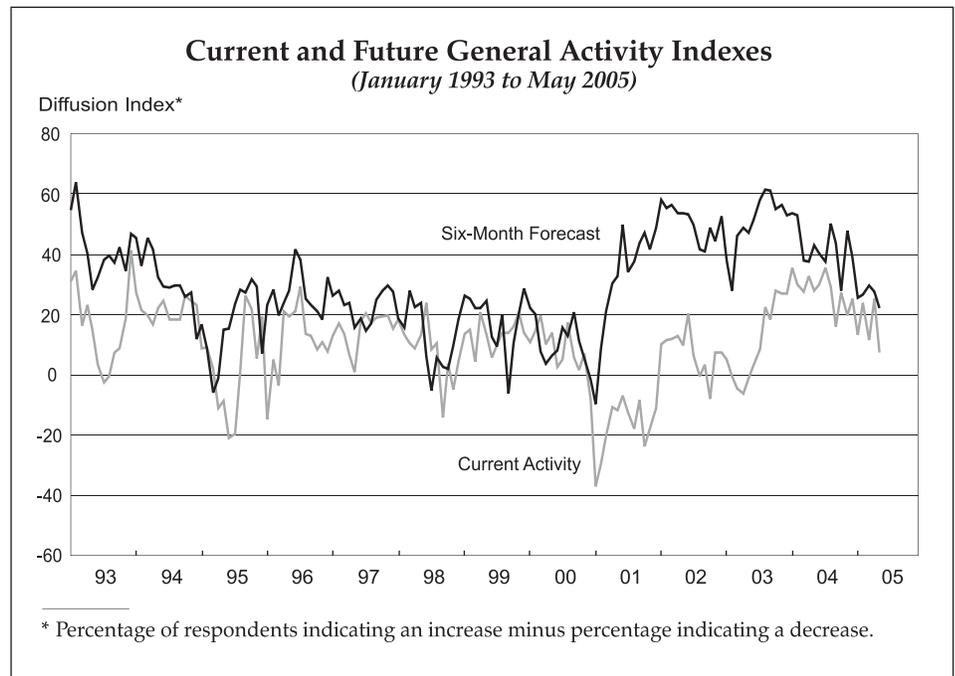
May 2005

Activity in the region's manufacturing sector continued to expand, but at a slower rate than in April. Indicators for general activity, new orders, shipments, and employment remained positive but fell from their readings last month. Firms continued to report a rise in prices for inputs and for their own finished goods, although the survey's price indexes fell. Respondents were less optimistic about future conditions this month than in April, but overall expectations suggest that manufacturing growth is expected to continue.

Current Indicators Suggest Slower Growth

The diffusion index of current activity, the broadest measure of manufacturing conditions, decreased from 25.3 in April to 7.3 this month. The index has been positive for 24 consecutive months, but May's reading is the lowest since June 2003 (see Chart). The percentage of firms reporting increases in activity (26 percent) was greater than that of firms reporting decreases (19 percent). Over 55 percent reported no change in general activity compared to April. The new orders and shipments indexes also remained positive but showed declines. The shipments index fell 15 points. The new orders index fell five points, but 35 percent of the firms reported increases in new orders (slightly lower than last month). Indicators for unfilled orders and delivery times were both close to zero, suggesting little change overall.

The moderation in manufacturing activity is evident in replies to questions about employment and hours worked. The percentage of firms reporting increased employment was higher than that of firms reporting lower employment for the 20th consecutive month. But the current employment index fell to its lowest point since November 2003, and the current workweek index fell to its lowest level since June 2003.



Price Indexes Moderate

Although firms continue to report higher production costs, the index for input prices fell nearly 20 points. The percentage of firms reporting higher prices for inputs was substantially below April's number.

Firms continue to report higher prices for their own manufactured goods: 22 percent reported higher prices; 6 percent reported lower. The diffusion index for prices received, however, fell 12 points. Expectations about future prices declined significantly this month. The future prices paid index fell 18 points, and the future prices received index dropped 21 points.

Six-Month Indicators Fall Again

Overall expectations for the next six months remain generally optimistic, although the index for future activity fell from a reading of 27.5 in April to 22.3, its lowest point since March 2001 (see Chart). Nevertheless, the portion of firms antici-

pating improvement in business conditions over the next six months (40 percent) continues to exceed the portion expecting deterioration (18 percent) by a wide margin.

Other future indicators declined this month. The future new orders index fell 18 points, and the future shipments index fell 12 points. On balance, firms expect unfilled orders to decrease modestly over the next six months and delivery times to decrease. The portion of firms that expect inventories to decrease over the next six months (27 percent) is greater than that of firms expecting them to increase (14 percent).

Firms' expectations for future employment and capital spending declined. The future employment index fell from 19.2 in April to 7.0 in May, its lowest reading since May 2003. More than 22 percent of the firms anticipate adding workers over the next six months, down from 31 percent in April. Following three consecutive months

Special Questions (May 2005)

1. Many firms have been reporting price increases for raw materials and energy since the beginning of the year. What impact will these recent price increases have on the prices of your finished products over the next three months?

	May 2005 %	May 2004 %
We expect steady prices for our goods	40.9	39.3
We expect price increases of approximately:		
0-5%	33.3	25.6
5-10%	10.8	21.4
10-15%	1.0	8.6
No response	14.0	5.1
Total	100.0	100.0

Since the beginning of the year, we have already increased our prices by:

0-5%	24.7	26.5
5-10%	16.1	14.5
10-15%	3.2	4.3
> 15%	0.0	3.4
Total	44.0	48.7

2. Are you currently experiencing shortages or delayed delivery of any critical raw materials?*

Yes	26.9	39.1
No	73.1	60.9

If yes, have these problems affected rates of production?

Yes	55.0	55.6
No	45.0	44.4

* Some raw materials cited were steel and steel-related products (such as stainless steel, steel tube, and bearings), cement, titanium, acrylic, aluminum, tires, copper wire, printed circuit boards, and rubber compounds.

of improvement, the capital spending diffusion index fell 16 points.

In special questions this month, firms were asked about the impact of recent cost increases on prices expected for their products over the next three months (see Special Questions). About 41 percent of respondents expect steady prices for their own goods over the next three months (almost identical to this time last year). Forty-four percent of the firms said they have already increased prices since the beginning of the year. Twenty-seven percent are currently experiencing shortages or delayed delivery of critical raw materials (39 percent reported shortages last year). Fifty-five percent of those experiencing shortages or delayed deliveries indicated that these problems have affected rates of production.

Summary

Indicators of current activity continue to point to an expansion of the region's manufacturing sector, although indicators for general activity, shipments, employment, and work hours suggest a slower pace of growth. Firms continued to report higher prices for inputs and for their own manufactured goods, but the survey's price indexes moderated this month. Although manufacturers are generally optimistic about growth in their sector, expectations for the next six months fell again in May.

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Summary of Returns

May 2005

	May vs. April					Six Months from Now vs. May				
	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?	25.3	25.9	55.3	18.6	7.3	27.5	40.3	39.0	18.0	22.3
Company Business Indicators										
New Orders	20.3	34.9	44.6	19.9	15.0	33.9	37.6	35.1	21.5	16.1
Shipments	29.4	30.4	52.2	15.5	14.9	31.8	37.3	39.0	17.3	20.0
Unfilled Orders	-3.8	17.4	62.7	17.5	-0.1	3.9	17.2	53.1	24.3	-7.1
Delivery Times	5.1	11.7	75.1	11.2	0.5	6.8	14.4	59.8	20.6	-6.2
Inventories	3.4	23.0	56.0	21.0	2.0	-8.5	14.3	53.7	26.9	-12.5
Prices Paid	50.5	37.6	55.8	6.7	30.9	50.6	44.7	40.7	12.2	32.5
Prices Received	28.0	22.0	71.6	6.3	15.7	37.0	27.4	56.7	11.0	16.5
Number of Employees	16.8	20.1	62.7	14.6	5.4	19.2	22.2	59.1	15.3	7.0
Average Employee Workweek	20.4	14.3	68.5	17.1	-2.8	12.7	18.9	61.2	15.4	3.5
Capital Expenditures	—	—	—	—	—	32.1	26.0	47.7	10.3	15.7

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 May 16, 2005.