



BUSINESS OUTLOOK SURVEY

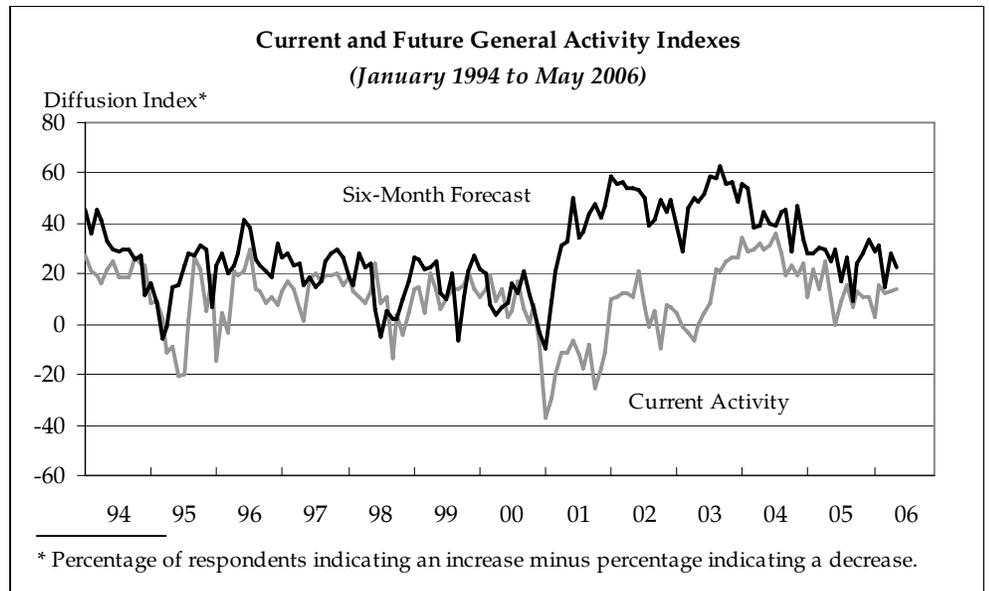
May 2006

Activity in the region's manufacturing sector continues to expand, according to firms polled for this month's *Business Outlook Survey*. The general activity index improved slightly this month, but other indicators of current activity were down from their readings last month. The percentage of firms reporting higher prices for inputs was up sharply, but the percentage of firms reporting higher prices for finished goods was slightly less than in April. The region's manufacturing executives were less optimistic about future growth and employment than in recent months.

Expansion Continues But Employment Stalls

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from 13.2 in April to 14.4 this month (see Chart). Twenty-nine percent of the firms reported increases in activity; 15 percent reported decreases. Although still positive, the new orders index fell almost 10 points, to its lowest reading since last September. The shipments index fell seven points, to its lowest reading in five months. For the second consecutive month, more firms reported declines in inventories than reported increases.

Employment indicators were notably weaker this month. The current employment index fell almost 21 points. The percentage of firms reporting increased employment (18 percent) was



nearly matched by that of firms reporting lower employment (17 percent). More firms reported a longer workweek than reported a shorter one, but the workweek diffusion index edged down slightly.

Input Prices Rise This Month

Firms reported higher production costs this month. Fifty-eight percent of the firms reported higher input prices, compared to 35 percent in April. The prices paid index rose 26 points, to its highest reading since October 2005.

Despite the report of higher production costs, only 16 percent of the firms reported higher prices for final manufactured goods, down from 24 percent last month. The prices received index fell five points.

In special questions this month, firms were asked about the impact of

recent higher costs on expected price increases for their products over the next three months (see *Special Questions*). About 39 percent of respondents expect steady prices for their own goods over the next three months, almost identical to the percentage who anticipated steady prices at this time last year. Thirty-one percent of the firms expect higher prices over the next three months, down from 45 percent at this time last year. About 19 percent of the firms are currently experiencing shortages or delayed delivery of critical raw materials, compared to 27 percent who indicated shortages last year. Nearly 31 percent of those experiencing shortages or delivery delays indicated that these problems have affected rates of production.

Six-Month Indicators Fall

Although still generally favorable, the respondents' six-month forecast for manufacturing growth weakened somewhat this month. The future general activity index decreased six points (see Chart), and the future new orders and shipments indexes fell 13 points and 22 points, respectively. The future employment index dropped 17 points, to its lowest reading since August 2002.

Summary

Indicators of current activity all point this month to continued growth of the region's manufacturing sector. However, indexes for new orders, shipments, and employment were weaker. Price pressures returned this month, with a significant increase in the percentage of firms reporting higher production costs. Firms expect continued growth in business over the next six months but are much less optimistic about future employment growth.

Special Questions (May 2006)

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 2006 %	May 2005 %	May 2004 %
We expect declining prices for our goods.	2.5	--	--
We expect steady prices for our goods.	39.4	40.9	39.3
We expect a price increase of approximately:			
0-5%	17.3	33.3	25.6
5-10%	12.4	10.8	21.4
10-15%	1.2	1.0	8.6
No response	27.2	14.0	5.1
Total	100.0	100.0	100.0
Since the beginning of the year, we have already increased our prices by:			
0-5%	22.2	24.7	26.5
5-10%	8.6	16.1	14.5
10-15%	0.0	3.2	4.3
> 15%	1.2	0.0	3.4
Total	32.0	44.0	48.7
2. Are you currently experiencing shortages or delayed delivery of any critical raw materials?*			
Yes	19.4	26.9	39.1
No	80.6	73.1	60.9
If yes, have these problems affected production?			
Yes	30.8	55.0	55.6
No	69.2	45.0	44.4

* Some raw materials cited were stainless steel, raw steel, bearings, aluminum castings, some electronic components, particle board, castings, copper wire, sweetener, furniture foam, plywood, plastic, copper, lead, and fuel.

BUSINESS OUTLOOK SURVEY (May 2006)	May vs. April					Six Months from Now vs. May				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	13.2	29.4	55.3	15.0	14.4	28.2	46.7	24.2	24.1	22.5
Company Business Indicators										
New Orders	12.2	23.6	52.9	20.9	2.7	37.4	47.3	21.5	23.0	24.3
Shipments	19.0	28.4	53.8	16.8	11.7	40.7	42.7	24.2	24.2	18.4
Unfilled Orders	7.0	14.1	68.2	16.3	-2.2	5.8	23.3	52.0	19.9	3.4
Delivery Times	-4.1	13.8	81.3	4.1	9.6	-0.2	16.7	66.1	13.5	3.2
Inventories	-8.8	11.6	72.1	15.5	-3.9	0.0	27.4	45.1	21.6	5.8
Prices Paid	29.0	57.6	40.0	2.4	55.3	42.9	63.2	28.1	5.0	58.2
Prices Received	15.4	16.4	76.5	6.1	10.3	14.2	44.2	43.9	6.6	37.6
Number of Employees	21.7	18.3	64.0	17.2	1.1	21.8	24.3	49.9	19.5	4.8
Average Employee Workweek	9.3	18.4	71.7	9.9	8.5	7.1	20.3	57.3	14.9	5.4
Capital Expenditures	--	--	--	--	--	16.8	26.4	45.1	7.1	19.3

NOTES:

- (1) Items may not add up to 100 percent because of omission by respondents.
- (2) All data are 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, 2006.