



BUSINESS OUTLOOK SURVEY

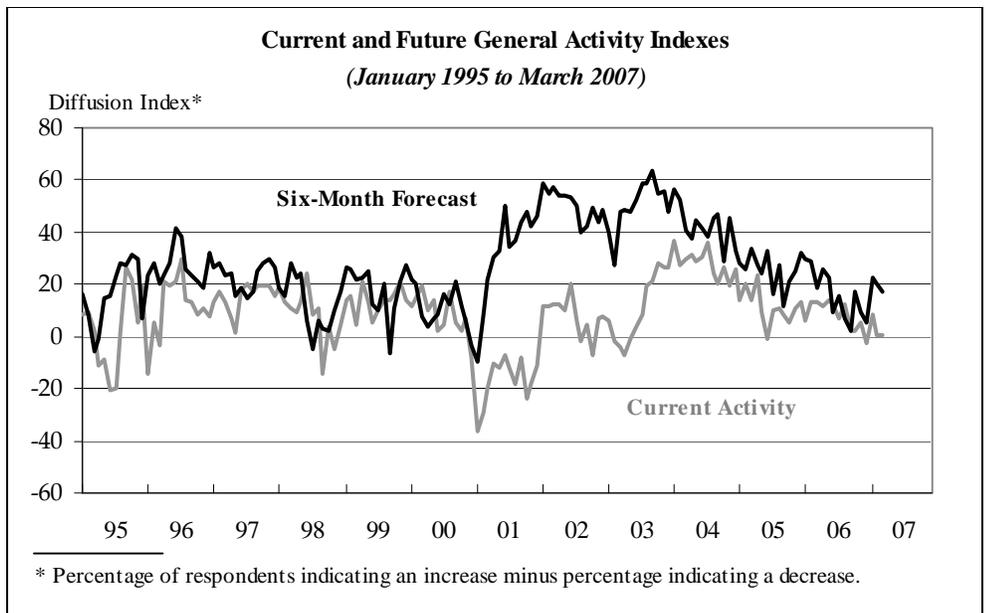
March 2007

Activity in the region's manufacturing sector was mostly steady again this month, according to firms polled for the *Business Outlook Survey*. The index for general activity was near zero, and the indicators for new orders, shipments, and employment were only slightly positive this month, suggesting little change from February. The outlook for growth diminished somewhat in March, although manufacturing executives still expect conditions to improve over the next six months.

Indicators Show Little Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased slightly from 0.6 in February to 0.2 this month (see Chart). Demand for the output of the firms surveyed showed only slight improvement this month: The new orders index increased two points, from -0.5 in February to 1.9 this month. The index had been negative in three of the previous four months. The shipments index increased from 1.7 in February to 6.8 this month. Indexes for delivery times and unfilled orders remained negative, indicating shorter delivery times and a decline in unfilled orders.

Overall employment in the region's manufacturing sector was mostly steady this month, reflecting continued lack of growth. Sixty-three percent of firms reported steady employment levels in March, and the percentage of firms reporting increases in employment (20 percent) was only slightly higher than those reporting decreases (17 percent). The current employment index increased three



points but is at a relatively low reading of 2.3. Moreover, firms reported fewer hours worked this month: The average workweek index remained negative, although it was slightly higher than in February.

Price Pressures Still Evident

Area manufacturers reported higher costs again this month. Thirty percent reported higher input prices, and 9 percent reported lower input prices. The prices paid index increased six points this month, the second consecutive month of increase. The index had trended down over the previous six months.

The prices received index edged seven points higher this month. The majority of manufacturers (62 percent) reported steady prices, 26 percent reported higher prices, and 10 percent lower prices.

Six-Month Indicators Weaken; Q2 Growth Will Pick Up

The outlook for manufacturing growth over the next six months showed a slight moderation this month. The future general activity index fell three points, and most of the other future indicators followed suit: The index for future new orders decreased four points, and future shipments decreased one point. Firms were also less optimistic about future growth in employment. The future employment index decreased eight points; 25 percent of the firms expect to increase employment over the next six months, and 16 percent expect to decrease it.

In special questions this month, firms were asked about expected growth in production during the second quarter (see Special Questions). Fifty-nine percent of the firms indicated that production

would increase in the second quarter; only about one-third of these firms said the increase was due to seasonal factors. Twenty-three percent indicated that production would decrease, and a small percentage of these firms attributed the expected decrease to seasonal factors. The largest share of firms (43 percent) indicated that the growth expected represented "some acceleration" from the first quarter; 10 percent indicated that it represented a "significant acceleration."

Summary

Overall activity in the region's manufacturing sector was steady this month, and indicators for new orders, shipments, and employment improved only slightly from February. Firms continue to report higher prices for inputs and for their own manufactured goods, and the survey's price indexes edged higher this month. The manufacturers' outlook remains generally optimistic: They expect a pickup in growth during the second quarter and improved conditions over the next six months.

Special Questions (March 2007)				
1. What percentage change do you anticipate for your firm's production in the second quarter of 2007 over the first quarter?				
	<i>All Reporting Firms</i>		<i>Firms Attributing Expected Change to Seasonal Factors (% of all reporting firms)</i>	
	%	subtotals	%	subtotals
Increase of more than 4 %	30.4	58.9	10.4	21.3
Increase of 2-4%	19.0		7.6	
Increase of 0-2%	9.5		3.3	
Decrease of 0-2%	5.3	23.2	0.0	4.4
Decrease of 2-4%	7.4		3.3	
Decrease of more than 4%	10.5		1.1	
No change	17.9	17.9	1.1	1.1
Totals	100.0%	100.0%	26.8%	26.8%
2. Would this represent an acceleration or deceleration of growth from the first quarter of 2007? (percent of responses)				
Significant acceleration	9.5	52.7	3.3	18.0
Some acceleration	43.2		14.7	
Some deceleration	15.8	20.0	3.3	3.3
Significant deceleration	4.2		0.0	
No change	27.3	27.3	5.5	5.5
Totals	100.0%	100.0%	26.8%	26.8%

BUSINESS OUTLOOK SURVEY (March 2007)	March vs. February					Six Months from Now vs. March				
	<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?	0.6	20.0	58.9	19.8	0.2	20.3	35.0	44.9	17.6	17.4
Company Business Indicators										
New Orders	-0.5	28.2	44.0	26.3	1.9	27.2	40.7	37.3	17.4	23.3
Shipments	1.7	31.1	44.5	24.3	6.8	23.2	40.7	38.9	18.2	22.5
Unfilled Orders	-10.5	10.9	57.2	31.8	-20.9	-10.2	18.3	57.4	19.5	-1.1
Delivery Times	-6.3	10.0	66.8	23.2	-13.2	-14.0	9.3	62.7	25.7	-16.5
Inventories	-1.9	19.0	57.4	22.6	-3.7	-6.9	14.3	53.3	24.0	-9.8
Prices Paid	15.8	30.4	59.9	8.6	21.8	25.6	36.0	48.7	9.1	26.9
Prices Received	9.4	26.3	61.7	10.1	16.3	11.6	28.3	54.5	13.2	15.0
Number of Employees	-0.4	19.6	62.9	17.3	2.3	17.0	25.1	55.2	16.2	8.9
Average Employee Workweek	-12.9	11.2	70.3	16.1	-4.9	2.8	17.4	67.8	11.0	6.4
Capital Expenditures	--	--	--	--	--	18.7	33.4	53.7	8.1	25.3

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 March 13, 2007.