



BUSINESS OUTLOOK SURVEY

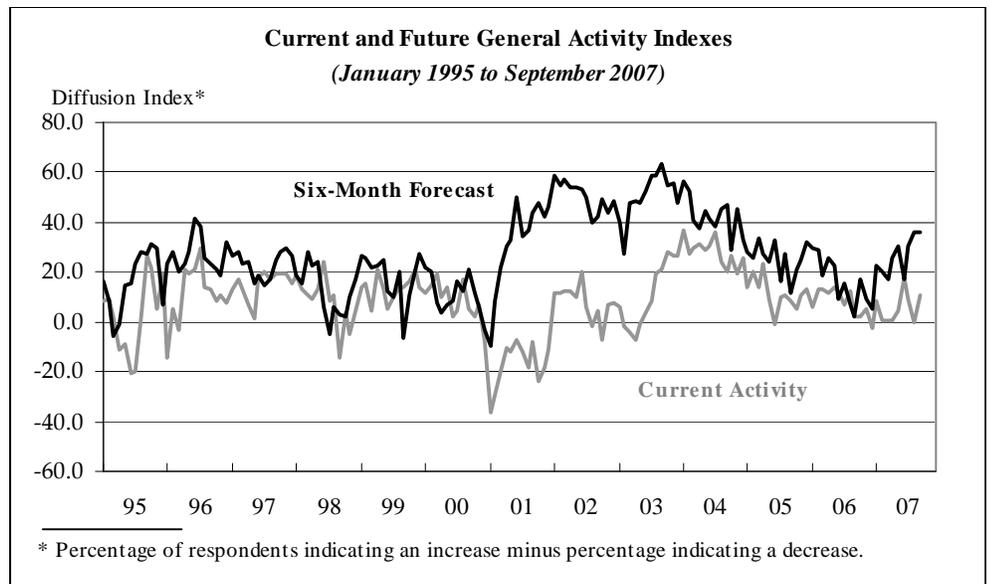
September 2007

Activity in the region's manufacturing sector picked up in September, according to firms polled for this month's *Business Outlook Survey*. Indexes for general activity, new orders, and shipments increased, reflecting continued underlying growth. Firms continued to report a rise in prices for inputs, but price increases for finished manufactured goods were not widespread. On balance, the forecast for growth over the next six months has not diminished appreciably, even though, according to responses to special questions this month, over one-quarter of the firms said they are scaling back employment and capital spending plans because of the recent deterioration in the construction industry and uncertainty in financial markets.

Firms Report an Increase in Activity

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from zero in August to 10.9 this month (see Chart). Forty-nine percent of the firms reported no change in activity from August, but the percentage of firms reporting increases (30 percent) was greater than the percentage reporting decreases (19 percent). Other broad indicators suggest growth this month. Demand for manufactured goods, as represented by the survey's new orders index, improved this month; the index increased eight points. The current shipments increased five points.

The improvement in manufacturing is less evident in replies about employment and hours worked. The percentage of firms reporting an increase in employ-



ment (24 percent) was somewhat higher than the percentage reporting a decrease (16 percent); still, the current employment index fell 14 points from its August reading. The average workweek index remained positive but edged slightly lower.

In a special question this month firms were asked about the impact on business of the recent deterioration in the construction and financial sectors (see Special Questions). About one-third of the firms reported some decline in new orders and shipments, although only 11 percent said the declines were substantial. A smaller percentage (24 percent) reported a decline in employment.

Price Pressures Remain

Respondents continue to report higher prices for inputs this month. The prices paid index increased eight points, after edging lower in the previous three months. Thirty percent of the firms reported higher input prices; 7 percent reported lower input prices.

The prices received index edged four points lower. Eighty-one percent of the manufacturers reported steady prices, 11 percent reported higher prices, and 7 percent reported lower prices.

Six-Month Forecasts Remain Optimistic

Expectations for manufacturing growth over the next six months remained relatively optimistic in September. The future general activity index, at 35.7, was nearly unchanged this month. The August reading was the highest since November 2004 (see Chart). The indexes for future new orders, which increased two points, and shipments, which increased eight points, continued to reflect optimism. The future employment index, however, fell 10

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points, to 25.1. Thirty-seven percent of the firms expect to increase employment over the next six months, down from 45 percent in August.

Manufacturing firms were also asked specifically about the impact on plans for employment and capital spending of the recent deterioration in the construction industry and uncertainties in the financial markets. About 27 percent of the firms indicated that they plan to scale back employment and capital spending, although only 9 percent said that these reductions would be substantial.

Summary

The survey's indicator of general activity increased this month, suggesting a modest improvement in overall manufacturing activity. Indexes for new orders, shipments, and employment improved this month, suggesting continued underlying growth. However, about one-third of the firms said that recent events in the construction and financial sectors have had negative effects on business. Price

Special Questions (September 2007)			
1. Have the most recent changes in the construction and financial sectors had any adverse effects on new orders, shipments, or employment at your plant?			
	New Orders %	Shipments %	Employment %
No impact	65.0	68.0	75.6
Slight decline	12.5	10.3	9.0
Moderate decline	11.3	10.3	7.7
Substantial decline	11.3	11.5	7.7
2. Have recent changes affected your plans for employment or capital spending over the rest of this year?			
	Employment Plans %	Capital Spending Plans %	
No impact	72.7	72.2	
Slight decline	10.4	6.3	
Modest decline	7.8	12.7	
Substantial decline	9.1	8.9	
<i>Percentages do not sum to 100 percent because of rounding.</i>			

indexes suggest continued cost pressures, but the percentage of firms reporting higher prices for their own manufactured goods this month was only slightly higher

than the percentage reporting decreases. On balance, manufacturing executives expect growth in business over the next six months.

BUSINESS OUTLOOK SURVEY September 2007	September vs. August					Six Months from Now vs. September				
	<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?	0.0	30.2	48.7	19.3	10.9	36.2	42.8	47.7	7.1	35.7
Company Business Indicators										
New Orders	7.1	33.6	46.3	18.5	15.1	41.5	48.9	44.0	5.4	43.5
Shipments	12.4	35.9	45.1	19.0	16.9	37.2	46.0	45.2	0.6	45.4
Unfilled Orders	-2.1	19.0	61.0	20.0	-1.0	6.3	22.1	66.0	7.8	14.3
Delivery Times	-2.1	12.9	68.1	19.0	-6.1	-2.0	12.3	67.9	17.5	-5.2
Inventories	-4.8	26.4	51.1	22.5	4.0	-11.8	17.1	56.1	24.4	-7.3
Prices Paid	15.4	29.7	63.5	6.6	23.1	41.1	52.0	43.5	3.2	48.8
Prices Received	6.8	10.6	80.9	7.3	3.3	20.6	36.9	57.3	5.8	31.2
Number of Employees	21.2	23.5	57.7	16.0	7.5	35.0	37.4	48.6	12.3	25.1
Average Employee Workweek	13.1	24.1	62.7	12.2	11.9	10.9	23.2	64.3	12.5	10.6
Capital Expenditures	--	--	--	--	--	26.3	30.2	49.4	8.9	21.3

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 September 17, 2007.