



# BUSINESS OUTLOOK SURVEY

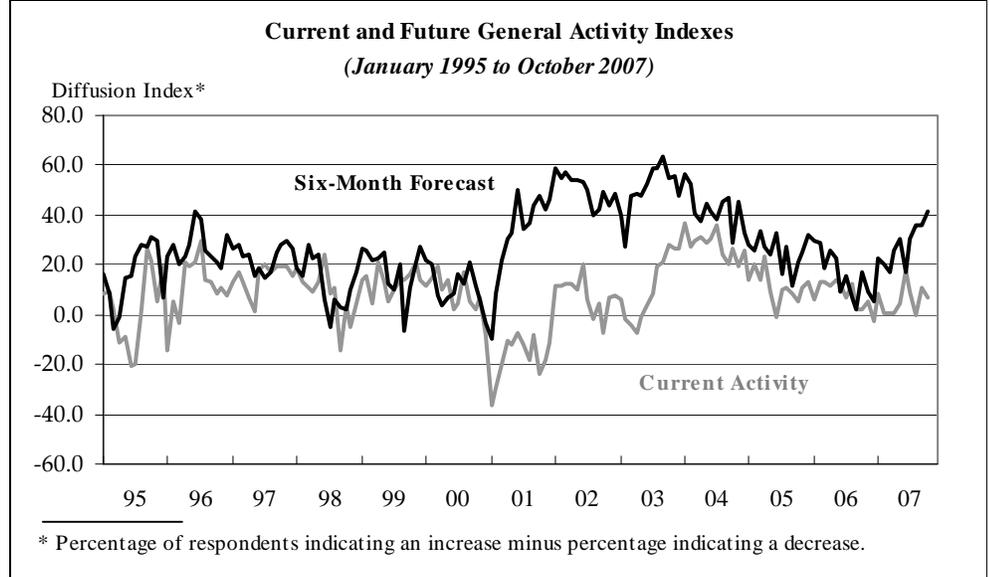
October 2007

Activity in the region's manufacturing sector continued to expand in October but at a somewhat slower pace than in September. Indicators for general activity and new orders remained positive but fell from their readings last month. Overall employment was reported higher. Significantly more firms reported a rise in prices for inputs, and price increases for finished goods were more widespread this month. Also this month, the region's manufacturing executives were, on balance, more optimistic about future activity than they were in September.

## Some Indicators Suggest Slowing This Month

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from 10.9 in September to 6.8 this month (see Chart). Fifty-two percent of the firms reported no change in activity from September, but the percentage of firms reporting increases (27 percent) remained greater than the percentage reporting decreases (21 percent). Other broad indicators suggested some slower growth this month. Demand for manufactured goods, as represented by the survey's new orders index, slipped this month; the index decreased 12 points but remained positive. The current shipments index fell 21 points, however, and moved below zero for the first time since September 2006.

A slowing in manufacturing is not evident in replies about employment and hours worked this month. The percentage of firms reporting an increase in employment (26 percent) was higher than the percentage reporting a decrease (13 per-



cent), and the current employment index increased five points from its September reading. The average workweek index remained positive but edged seven points lower.

## Price Pressures Are Greater This Month

A larger percentage of firms reported higher prices for inputs this month: 46 percent of the firms reported higher input prices this month compared to 30 percent in September. The prices paid index jumped 17 points and has now increased for two consecutive months.

The prices received index increased nine points. Although 66 percent of the firms reported steady prices for their own manufactured goods, 23 percent reported higher prices, and 11 percent reported lower prices.

## Six-Month Forecasts Remain Optimistic

Expectations for manufacturing growth over the next six months showed some

improvement this month. The future general activity index, at 41.5, is six points higher than in September and is now at its highest level since November 2004 (see Chart). The index for future new orders held steady this month, but the future shipments index decreased seven points. The future employment index edged two points higher. Forty-two percent of the firms expect to increase employment over the next six months; 15 percent expect decreases.

In special questions this month, firms were asked if recent changes in financial conditions had influenced planned spending on new plant and equipment over the next six to 12 months relative to the past

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six to 12 months (see Special Questions). Although two-thirds of the firms indicated no revisions in plans, 12 percent indicated substantial downward revision in planned spending, 13 percent indicated a small downward revision, and only 1 percent expected substantial upward revision.

With regard to their actual plans, nearly 32 percent of the firms said they plan to increase capital spending over the next six to 12 months – somewhat lower than the percentage at the beginning of this year (40 percent), when the same question was posed. Twenty-six percent said they plan to decrease spending, up slightly from 22 percent at the beginning of the year.

### Summary

Indicators of current activity suggest continued growth of the region's manufacturing sector, although at a slightly slower rate than in September. Most current indicators suggest slower growth. Indexes for general activity, new orders, and employment all remained positive,

although the shipments index fell significantly from September. A significantly larger percentage of firms reported higher costs this month, but half as many firms reported higher prices for manufactured

goods. Despite weakening in some current indicators, manufacturing executives remained optimistic about growth over the next six months.

Special Questions (October 2007)			
1. Have recent changes in financial conditions prompted your firm to revise its planned spending on new plant and equipment over the next six to 12 months?			
Substantial downward revision	11.6%		
Small downward revision	12.8%		
No change	67.4%		
Small upward revision	7.0%		
Substantial upward revision	1.2%		
2. After taking account of any recent revisions to spending plans, do you expect your firm's spending on new plant and equipment over the next six months to increase, decrease, or be about unchanged relative to your actual spending over the past six to 12 months?			
	Oct 2007	Jan 2007	Jan 2006
Decrease	25.9%	21.7%	15.2%
No change	42.4%	38.1%	45.6%
Increase	31.7%	40.2%	39.2%

BUSINESS OUTLOOK SURVEY October 2007	October vs. September					Six Months from Now vs. October				
	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?	10.9	27.3	52.2	20.5	6.8	35.7	52.1	30.1	10.6	41.5
Company Business Indicators										
New Orders	15.1	27.1	48.0	24.5	2.7	43.5	55.6	32.3	12.1	43.5
Shipments	16.9	23.0	48.8	27.1	-4.1	45.4	54.1	28.7	15.5	38.7
Unfilled Orders	-1.0	16.7	58.5	24.8	-8.2	14.3	17.9	64.3	14.3	3.6
Delivery Times	-6.1	14.1	71.0	13.1	0.9	-5.2	11.6	67.2	16.4	-4.8
Inventories	4.0	10.7	61.6	25.7	-15.0	-7.3	18.9	48.5	27.8	-8.9
Prices Paid	23.1	45.7	48.0	5.4	40.3	48.8	53.9	37.7	2.4	51.5
Prices Received	3.3	22.9	66.4	10.5	12.4	31.2	45.6	42.7	7.5	38.1
Number of Employees	7.5	26.0	59.5	13.4	12.6	25.1	42.3	37.6	15.4	26.9
Average Employee Workweek	11.9	21.2	58.9	16.1	5.1	10.6	18.3	65.4	12.0	6.3
Capital Expenditures	--	--	--	--	--	21.3	33.9	41.8	13.3	20.5

### 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 October 15, 2007.