



BUSINESS OUTLOOK SURVEY

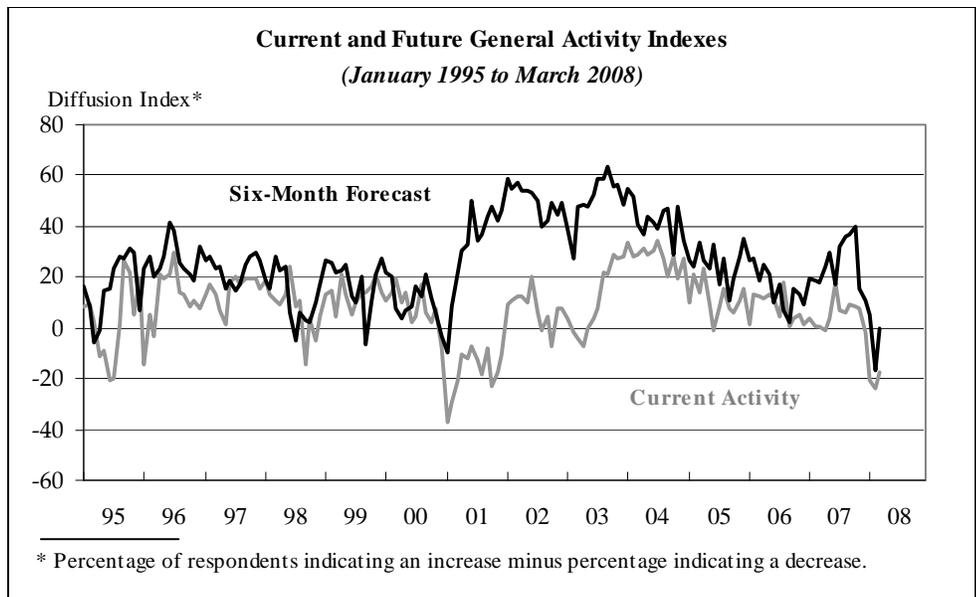
March 2008

Activity in the region's manufacturing sector showed continued weakness this month, according to firms polled for the March *Business Outlook Survey*. Indexes for general activity, new orders, and shipments remained negative, although they increased slightly. Despite the reported weakness, a significant share of the manufacturers continued to report price pressures. Most future indicators rebounded this month, after having reached their lowest readings since 2001 last month.

Indexes Suggest Weakness Continues

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, improved from -24.0 in February to -17.4 in March (see Chart). The index has remained negative for four consecutive months. Fifty-one percent of the firms reported no change in activity from February, but the percentage of firms reporting decreases (33 percent) remained greater than the percentage reporting increases (15 percent). Other broad indicators also suggested continued declines this month, although their readings were also less negative. Demand for manufactured goods, as represented by the survey's new orders index, increased slightly, from -10.9 to -9.3. The current shipments index increased from -12.2 to -6.3. Indexes for both unfilled orders and delivery times remained negative, and both declined from their readings in February.

Continued weakness was also evident this month in responses about employment and hours worked. The percentage of firms reporting a decrease in employ-



ment (20 percent) was slightly higher than the percentage reporting an increase (15 percent), and the current employment index fell from 2.5 to -4.7, its second negative reading in three months. Weakness was most evident this month in hours worked: 21 percent indicated declines in average hours worked; 11 percent reported increases. The average workweek index dropped from -3.9 in February to -10.0 this month.

Firms Report Price Pressures

A notable share of the firms reported higher prices for inputs this month. Sixty-one percent of the manufacturers surveyed reported higher input prices. The prices paid index jumped from 46.6 in February to 54.4 and has increased 18 points since December. Price increases for the manufacturers' own products were still relatively widespread. Thirty percent of the firms reported increased prices for their own goods, although the prices re-

ceived index decreased slightly, from 24.3 to 21.2.

Six-Month Outlook Improves But Remains Cautious

The future general activity index rebounded from a reading of -16.9 in February (its lowest since 1990) to -0.5 this month (see Chart). The percentage of firms expecting growth in activity over the next six months (28 percent) was offset by the percentage expecting decreases (29 percent). The indexes for future new orders and shipments also rebounded. The future new orders index increased from -7.8 to 8.5, and the future shipments index increased from 5.2 to 10.8. On bal-

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ance, firms expect to maintain current employment levels over the next six months. The percentage of firms expecting to add workers is essentially the same as that of firms expecting to make cuts (22 percent). The future employment index improved from -8.8 to 0.6.

In this month's special questions, firms were asked about expected growth in production during the second quarter compared with the first quarter (see Special Questions). As a group, the firms expect little or no growth in the second quarter. About 26 percent expect meager growth due to seasonal conditions, but this is offset by the 56 percent of firms expecting declines due to weaker business conditions or other factors.

Summary

The region's manufacturing sector showed continued weakness in March, as evidenced by negative readings of the indexes for all of the broad current indicators: activity, new orders, shipments, employment, and average hours worked. Cost pressures remain widespread, and a

notable share of firms reported price increases for their own manufactured goods. Firms' expectations for future activity improved somewhat this month, after deteriorating sharply over the previous four months. Firms indicated, on balance, that they anticipate virtually flat production levels for the second quarter. Despite some improvement in their outlook this month, the region's manufacturers are cautious about growth over the next six months.

Special Questions (March 2008)

1a. What change, if any, do you anticipate in your firm's production during the second quarter of 2008 compared to the first quarter?

	Avg. %
Total All Firms	0.0
Firms attributing change to:	
Seasonal conditions*	0.3
Business conditions*	-0.2
Other factors*	-0.1
* Based on answers to question 1b below.	
1b. Does the expected increase or decrease reflect seasonal factors or a change in business conditions?	
	%
Seasonal conditions	25.6
Business conditions	31.7
Other factors	24.4
No response	18.3
Total	100.0

BUSINESS OUTLOOK SURVEY March 2008	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?	-24.0	15.4	51.2	32.8	-17.4	-16.9	28.3	41.0	28.7	-0.5
Company Business Indicators										
New Orders	-10.9	20.1	47.6	29.4	-9.3	-7.8	35.8	34.6	27.4	8.5
Shipments	-12.2	19.7	53.9	25.9	-6.3	5.2	38.5	33.2	27.8	10.8
Unfilled Orders	-10.9	12.7	55.6	31.5	-18.7	-10.6	10.6	62.9	26.1	-15.5
Delivery Times	-7.6	9.8	70.1	20.1	-10.3	-5.8	7.8	65.3	26.9	-19.2
Inventories	-13.0	20.2	45.4	33.8	-13.5	-12.9	12.0	45.5	39.4	-27.3
Prices Paid	46.6	60.6	29.2	6.2	54.4	36.8	70.7	20.2	6.6	64.1
Prices Received	24.3	29.6	60.8	8.3	21.2	32.1	50.3	33.6	14.0	36.2
Number of Employees	2.5	14.9	65.0	19.6	-4.7	-8.8	22.4	55.0	21.8	0.6
Average Employee Workweek	-3.9	11.4	65.4	21.4	-10.0	-1.9	19.6	59.2	21.2	-1.5
Capital Expenditures	--	--	--	--	--	1.7	22.6	46.7	25.3	-2.7

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 18, 2008.