



BUSINESS OUTLOOK SURVEY

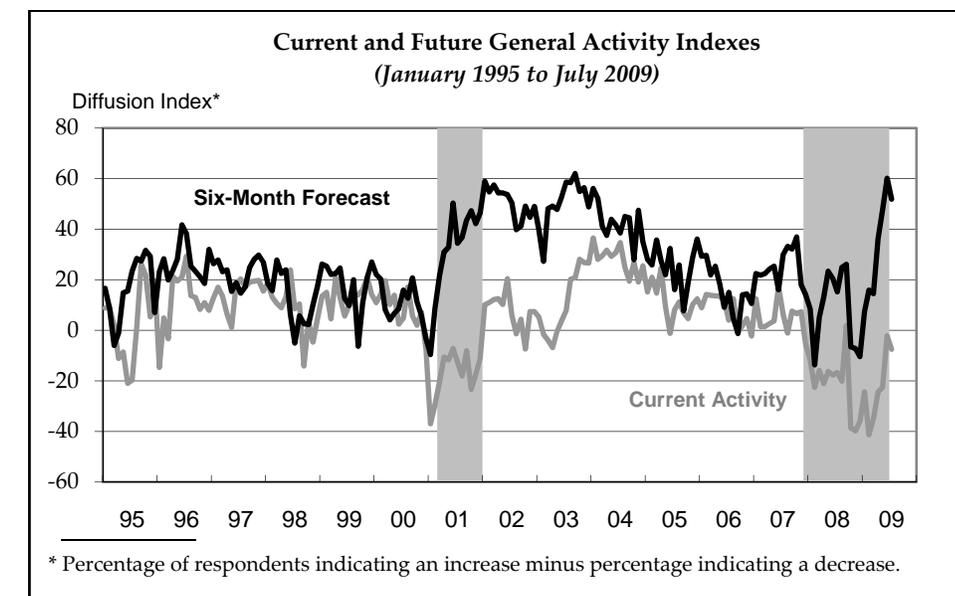
July 2009

The region's manufacturing sector is still experiencing weakness, according to firms polled for this month's *Business Outlook Survey*. Indexes for general activity, new orders, and shipments all registered negative readings this month, although the indexes' levels remained above their average readings for the year. Firms also report continued declines in employment and work hours this month. Most of the survey's broad indicators of future activity declined slightly this month, but they continue to suggest that the region's manufacturing executives expect a recovery in business over the next six months.

Current Indicators Still Suggest Weakness

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from -2.2 in June to -7.5 this month. The index has been negative for 19 of the past 20 months, a span that corresponds to the current recession (see Chart). Firms reporting decreases in activity (31 percent) slightly outnumbered those reporting increases (23 percent). Other broad indicators suggest weakness, although recent declines in new orders may be stabilizing. The current new orders index edged three points higher, to -2.2, its highest reading in 10 months. However, the current shipments index declined 12 points. Indexes for delivery times and unfilled orders, which have remained negative for 15 consecutive months, suggest continued weakness.

Labor market conditions remain weak, and firms continue to report employment losses and declines in work hours. The current employment index declined to -25.3, from an already weak reading of -21.8. Thirty percent of firms reported declines in employment this month; only 5 percent reported increases. Al-



though the workweek index improved 11 points, 24 percent of the firms reported shorter hours and 9 percent reported longer hours.

Price Index Suggests Near Steady Input Prices

Firms reported less widespread declines in input prices again this month. The prices paid index, although still negative at -3.5, increased nearly 10 points; it has now risen 28 points over the last three months. Fifteen percent of firms reported cost decreases, and 11 percent reported increases. However, declines dominate prices for the manufacturers' own final goods: Over 25 percent reported price declines, while only 4 percent reported increases. The prices received index declined five points, to -21.5.

Six-Month Indicators Show Continued Improvement

Broad indicators of future activity fell somewhat from their six-year highs last month, but they continue to suggest that firms

are expecting improved conditions later this year. The future general activity index remained positive for the seventh consecutive month, but decreased from 60.1 in June to 51.9 this month. Last month's reading was its highest since September 2003 (see Chart). Indexes for future new orders and shipments also retreated 12 points this month. For the third consecutive month the percentage of firms expecting employment to increase over the next six months exceeded the percentage expecting declines (22 percent vs. 9 percent), and the future employment index was virtually unchanged. Firms' forecast for future capital spending remains subdued: The share of firms expecting higher capital spending over the next six months (20 percent) is nearly the same as the percentage expecting decreases (17 percent).

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In special questions this month firms were asked about seasonal plant shutdowns or slowdowns during the summer (see Special Questions). Nearly 28 percent of firms indicated that it was normal to schedule such slowdowns, but nearly 49 percent said they would schedule them this year. Moreover, 62 percent of the firms scheduling shutdowns/slowdowns indicated that production decreases for July would be greater than usual. Nearly 49 percent indicated production declines for August would be greater than usual.

Summary

According to respondents to the July *Business Outlook Survey*, declines in the region's manufacturing sector continued this month, although declines were not as large as those registered over most of the first half of the year. Indicative of continued weakness, however, firms are still reporting declines in employment and work hours. Although input prices may be stabilizing, over one-quarter of the firms reported declines in prices for their

own manufactured goods. Future indicators suggest that firms expect improvement in conditions over the next six months, and for the third consecutive month, the number of firms

expecting increases in employment over the next six months is larger than the number expecting declines.

SPECIAL QUESTIONS (July 2009)				
1) Do you normally schedule seasonal plant shutdowns or production slowdowns during the summer months?				
	2009		2006	
Yes	27.6		30.2	
No	71.1		64.0	
NR	1.3		5.8	
2) Will you schedule plant shutdowns or production slowdowns during the summer months this year?				
	2009		2006	
Yes	48.7		33.7	
No	50.0		59.3	
NR	1.3		7.0	
If yes, which of the following best characterizes your expected shutdowns/slowdowns for this month and next?				
	2009		2006	
	July	August	July	August
Production decreases greater than usual	62.2	48.6	41.4	17.2
Production decreases about the same as usual	27.0	21.6	44.8	41.4
Production decreases less than usual	5.4	2.7	13.8	6.9
Unsure/too early to predict	0.0	13.5	--	--
NR	5.4	13.5	0.0	34.5

BUSINESS OUTLOOK SURVEY July 2009	July vs. June					Six Months from Now vs. July				
	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?	-2.2	23.0	46.6	30.5	-7.5	60.1	59.3	32.3	7.4	51.9
Company Business Indicators										
New Orders	-4.8	24.4	46.1	26.7	-2.2	58.6	51.3	41.4	4.9	46.4
Shipments	2.1	18.8	46.9	28.3	-9.5	57.4	53.0	34.9	7.6	45.4
Unfilled Orders	-19.6	10.2	63.1	24.8	-14.6	25.6	19.1	74.3	6.1	12.9
Delivery Times	-18.9	6.7	74.4	17.0	-10.3	5.5	11.9	79.8	6.5	5.3
Inventories	-15.3	14.2	53.1	29.6	-15.4	-6.6	21.3	55.0	23.7	-2.4
Prices Paid	-13.0	11.2	73.4	14.7	-3.5	19.9	30.9	59.5	7.9	23.0
Prices Received	-16.6	3.9	68.7	25.4	-21.5	2.0	23.4	63.2	12.3	11.2
Number of Employees	-21.8	4.7	62.0	30.0	-25.3	12.8	21.9	66.1	8.9	13.0
Average Employee Workweek	-26.6	8.9	61.3	24.4	-15.5	37.6	24.9	57.8	6.8	18.1
Capital Expenditures	--	--	--	--	--	1.7	19.5	55.0	17.1	2.4

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 July 14, 2009.