



BUSINESS OUTLOOK SURVEY

September 2010

Results from the *Business Outlook Survey* suggest that regional manufacturing activity was nearly flat in September. For the second consecutive month, firms reported a decline in both new orders and shipments. Employment levels remained steady this month, but firms reported declines in average work hours. The survey's broad indicators of future activity continue to suggest that the region's manufacturing executives expect growth in business over the next six months, but optimism remains below levels earlier in the year.

Indicators Suggest Growth Stalled At End of Summer

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from a reading of -7.7 in August to -0.7 in September. The index, which has been negative for two consecutive months, suggests that growth has stalled over the last two months (see Chart). Indexes for new orders and shipments continued to indicate weakness this month: The new orders index fell 1 point, remaining negative for the third consecutive month, and the shipments index decreased 3 points, remaining negative for the second consecutive month. Firms reported declines in inventories and unfilled orders and shorter delivery times.

Firms reported near steady employment this month but lower average work hours for existing employees. The percentage of firms reporting increases in employment (18 percent) narrowly edged out the percentage reporting decreases (16 percent). The index for employment was slightly positive this

month, increasing 5 points from its negative reading in August. Indicative of weaker activity, more firms reported declines in average work hours for existing employees (30 percent) than reported increases (8 percent).

Firms Report Lower Prices for Products

On balance, firms reported declines in prices for their own manufactured goods: More firms reported decreases in prices (21 percent) than reported increases (7 percent). Cost pressures continue to ease among the reporting firms. The prices paid index, which edged 2 points lower, to 9.8, has declined 33 points over the last five months and is now at its lowest reading in 13 months.

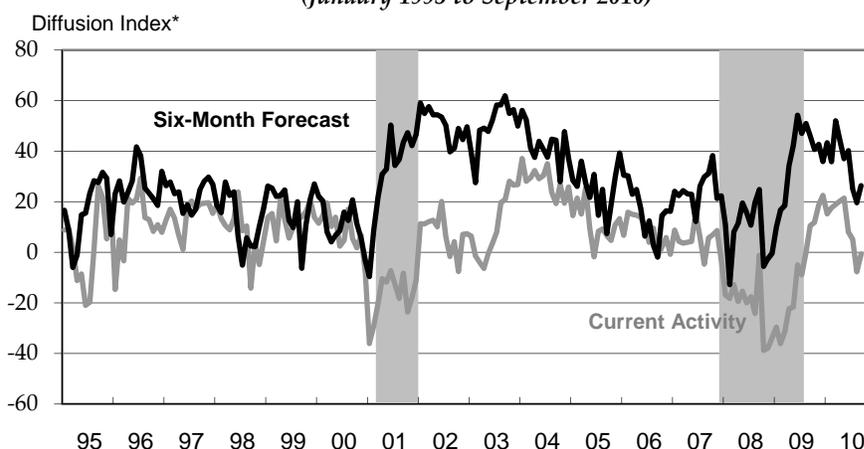
Growth Expected Over Next Six Months But Optimism Has Not Recovered

The future general activity index remained positive for the 21st consecutive month and increased 7 points, to a reading of 26.3. The index, however, remains well below levels in

the first half of the year (see Chart). Indexes for future new orders and shipments declined slightly, falling 5 and 2 points, respectively. The percentage of firms that expect to increase employment over the next six months (22 percent) is higher than the percentage that expects to decrease employment (12 percent). The future employment index increased 12 points but remains well below its average reading for the year.

For this month's special questions, manufacturers were asked about their total production growth for the third quarter (ending in September) and expectations for the fourth quarter (see Special Questions). While 49 percent of the firms said total production would end higher for the third quarter compared with the second quarter, 36 percent indicated it would be lower. The average growth rate

Current and Future General Activity Indexes
(January 1995 to September 2010)



* Percentage of respondents indicating an increase minus percentage indicating a decrease.

among the firms was a tepid 0.6 percent for the quarter. For the upcoming fourth quarter, the percentage of firms that expect a deceleration in production growth (48 percent) is higher than the percentage expecting an acceleration (24 percent).

Summary

According to respondents to the September *Business Outlook Survey*, regional manufacturing activity has stalled over the past two months. The broadest indicators of growth — general activity, new orders, and shipments — have all remained slightly negative for at least the last two months. Firms maintained steady employment levels this month but average work hours fell notably, as in the previous month. Despite the evident weakness over the past two months, firms expect growth in their manufacturing business over the next six months. However, the degree of confidence slipped in the third quarter, and, as a group, firms are expecting a slowing in the pace of production growth in the fourth quarter.

| Special Questions (September 2010) | | |
|--|------|-----------|
| 1. How do you expect your firm's total production for the third quarter to compare with that of the second quarter?* | | |
| | % | Subtotals |
| Increase of more than 10% | 13.9 | 49.4 |
| Increase of 8-10% | 2.5 | |
| Increase of 6-8% | 5.1 | |
| Increase of 4-6% | 11.4 | |
| Increase of 2-4% | 11.4 | |
| Increase of less than 2% | 5.1 | 35.5 |
| Decreases of less than 2% | 2.5 | |
| Decreases of 1-2% | 7.6 | |
| Decreases of 2-4% | 5.1 | |
| Decreases of 4-6% | 3.8 | |
| Decreases of 6-10% | 3.8 | |
| Decreases of more than 10% | 12.7 | |
| No change | 12.7 | 12.7 |
| Average | 0.6% | |
| 2. For the upcoming fourth quarter, what growth do you expect for production at your plant compared to the third quarter? | | |
| Significant acceleration | 6.3 | 24.0 |
| Some acceleration | 7.6 | |
| Slight acceleration | 10.1 | |
| Slight deceleration | 12.7 | 48.2 |
| Some deceleration | 26.6 | |
| Significant deceleration | 8.9 | |
| No change | 25.3 | 25.3 |
| *Percentages may not add to 100 because a small percentage of firms did not respond to the special questions. | | |

| BUSINESS OUTLOOK SURVEY <i>September 2010</i> | 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? | -7.7 | 27.0 | 42.1 | 27.7 | -0.7 | 19.6 | 45.3 | 29.0 | 19.0 | 26.3 |
| Company Business Indicators | | | | | | | | | | |
| New Orders | -7.1 | 24.6 | 42.4 | 32.7 | -8.1 | 25.7 | 42.7 | 27.8 | 21.9 | 20.7 |
| Shipments | -4.5 | 26.7 | 39.5 | 33.8 | -7.1 | 21.7 | 43.0 | 29.3 | 23.2 | 19.8 |
| Unfilled Orders | -7.1 | 16.1 | 57.7 | 24.6 | -8.5 | 2.2 | 17.9 | 52.7 | 20.8 | -2.9 |
| Delivery Times | -11.0 | 11.0 | 71.2 | 15.2 | -4.1 | 0.8 | 6.3 | 67.9 | 18.2 | -12.0 |
| Inventories | -11.6 | 6.5 | 69.4 | 23.2 | -16.7 | -16.9 | 12.8 | 60.8 | 24.4 | -11.6 |
| Prices Paid | 11.8 | 23.0 | 61.8 | 13.2 | 9.8 | 30.2 | 33.5 | 47.5 | 11.9 | 21.6 |
| Prices Received | -12.5 | 6.6 | 69.1 | 20.5 | -13.9 | 3.0 | 23.2 | 55.0 | 13.8 | 9.5 |
| Number of Employees | -2.7 | 17.9 | 62.9 | 16.0 | 1.8 | -1.7 | 22.2 | 58.9 | 12.0 | 10.2 |
| Average Employee Workweek | -17.1 | 7.9 | 60.7 | 29.5 | -21.6 | -3.3 | 24.4 | 47.8 | 21.0 | 3.4 |
| Capital Expenditures | -- | -- | -- | -- | -- | 12.3 | 21.4 | 58.1 | 9.8 | 11.6 |

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 14, 2010.