



# BUSINESS OUTLOOK SURVEY

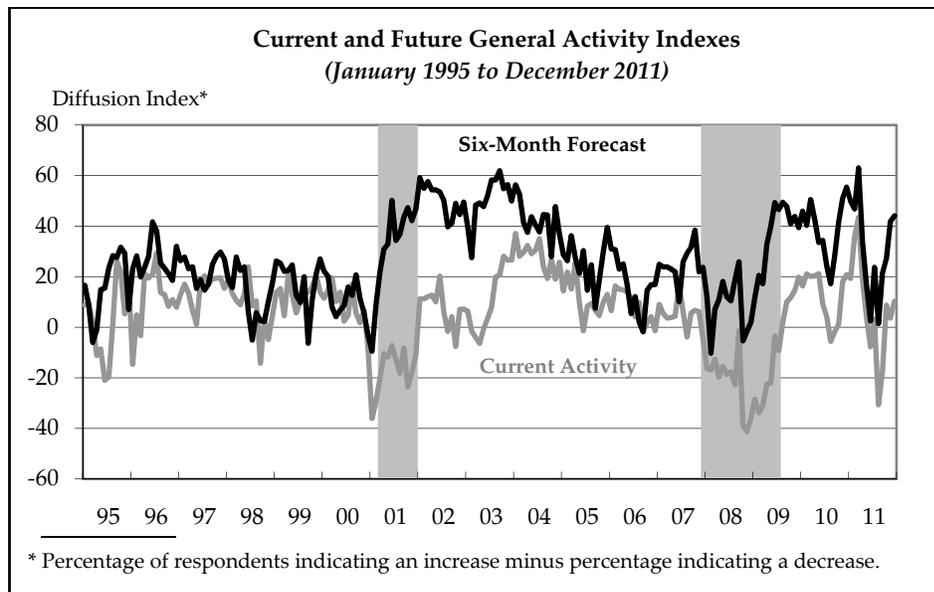
## December 2011

Responses to the *Business Outlook Survey* this month suggest that regional manufacturing continued to improve in December. All of the broad indicators remained positive and suggest a modest expansion of activity. Increases in input prices were more widespread this month, and there was an uptick in the number of firms reporting increased prices for their own goods. The broadest indicator of future activity reflected a trend of increased optimism about growth over the next six months.

### Indicators Suggest Continued Expansion

The diffusion index of current activity, the survey's broadest measure of manufacturing conditions, remained positive for the third consecutive month and increased from 3.6 in November to 10.3 (see Chart). The percentage of firms reporting increases in activity (25 percent) exceeded the percentage reporting decreases (15 percent). The index for current new orders showed a similar improvement, increasing 8 points. The shipments index, at 6.7, was mostly flat. Twice as many firms reported declines in inventories (30 percent) as reported increases (15 percent) and the current inventory index fell 22 points to -14.9.

Labor market conditions continue to show overall improvement, but indexes edged down this month. Twenty percent of the firms reported an increase in employment; 10 percent reported a decrease. The current employment index remained positive at 10.7, only 1 point lower than in November. The average workweek index also remained positive but fell nearly 9 points.



### Prices for Manufactured Goods Edge Higher

Increasing costs were more widespread this month compared to last month. The percentage of firms reporting higher input costs increased from 31 percent in November to 41 percent this month. The prices paid diffusion index increased 11 points.

The percentage of firms reporting increases in prices for their manufactured goods (22 percent) was higher than that reporting decreases (10 percent). The prices received diffusion index increased 9 points, to its highest reading in seven months.

### Six-Month Indicators Continue to Improve

Indicators for future activity continued to improve this month. The broadest indicator of future activity increased 2 points; it has now increased for four consecutive months and is at its highest reading in nine months

(see Chart). The index for future new orders also improved, increasing 8 points. Although employment forecasts remain generally positive, the future employment index fell 13 points. The percentage of firms expecting to increase employment over the next six months (24 percent) is significantly higher than the percentage expecting to decrease employment (11 percent).

In this month's special questions, firms were asked about their expectations for changes in various categories of input and labor costs for the coming year (see Special Questions). Similar to responses in previous years, current responses indicate that the

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The survey's annual historical revisions, which incorporate new seasonal adjustment factors, will be released on Thursday, January 12, 2012, at 10 a.m. ET.

largest annual increase is expected to be for health benefits (7.3 percent). In contrast, other labor costs (wages and non-health-care costs) are expected to rise only 2.1 and 2.5 percent, respectively. All other nonlabor expense categories are expected to increase in 2012: energy (1.8 percent), raw materials (3.3 percent), and intermediate goods (2.4 percent). Firms were also asked how the expected cost increases will compare to 2011 costs. In every category, the percentage of firms indicating that their costs would be higher in 2012 was greater than the percentage reporting that their costs would be lower.

### Summary

According to respondents to the December *Business Outlook Survey*, the region's manufacturing sector is showing continued improvement at year-end. Indicators for general activity, new orders, shipments, and employment all suggest growth this month. Firms' outlook for future manufacturing growth, as measured by the survey's six-month indicators, continued to improve this month.

<b>Special Questions (December 2011)</b>						
1. What percentage change in costs do you expect for the following categories in 2012?						
	Energy	Other Raw Materials	Intermediate Goods	Wages	Health Benefits	Nonhealth Benefits
Increase 15% or more	0	1.3	0	0	6.6	0
Increase of 12.5-15%	0	0	0	0	6.6	1.3
Increase of 10-12.5%	2.6	0	1.3	0	10.5	2.6
Increase of 7.5-10%	3.9	9.2	3.9	0	28.9	2.6
Increase of 5-7.5%	7.9	13.2	6.6	2.6	19.7	7.9
Increase of 2.5-5%	21.1	38.2	27.6	40.8	11.8	27.6
Increase of < 2.5%	28.9	18.4	28.9	31.6	3.9	25.0
Stay at current levels	23.7	14.5	26.3	25.0	7.9	32.9
Decline of < 2.5%	5.3	1.3	0	0	1.3	0
Decline of 2.5% or more	5.3	2.6	0	0	1.3	0
<b>Avg. Expected Change</b>	<b>1.8</b>	<b>3.3</b>	<b>2.4</b>	<b>2.1</b>	<b>7.3</b>	<b>2.5</b>
2. How do these expected costs compare with those in 2011?						
<i>Higher</i>	32.9	46.1	30.3	25.0	55.3	23.7
<i>Lower</i>	21.1	15.8	0	7.9	11.8	1.3
<i>Same</i>	42.1	35.5	63.2	65.8	31.6	73.7
* Percentages may not add to 100 percent because some reporters did not respond to the questions.						

<b>BUSINESS OUTLOOK SURVEY December 2011</b>	December vs. November					Six Months from Now vs. December				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>
What is your evaluation of the level of general business activity?	3.6	25.0	56.1	14.6	10.3	<b>41.9</b>	47.0	46.4	2.9	<b>44.1</b>
Company Business Indicators										
New Orders	<b>1.3</b>	30.3	46.0	20.6	<b>9.7</b>	<b>39.8</b>	53.8	33.0	6.2	<b>47.6</b>
Shipments	<b>7.3</b>	27.6	49.0	20.9	<b>6.7</b>	<b>37.3</b>	46.6	36.0	9.2	<b>37.4</b>
Unfilled Orders	<b>-1.5</b>	18.3	70.0	11.1	<b>7.2</b>	<b>9.0</b>	17.2	60.8	12.8	<b>4.4</b>
Delivery Times	<b>2.5</b>	11.8	79.3	8.8	<b>3.0</b>	<b>-3.7</b>	9.4	72.1	8.2	<b>1.2</b>
Inventories	<b>6.6</b>	14.7	52.0	29.6	<b>-14.9</b>	<b>-11.3</b>	15.3	58.3	22.1	<b>-6.8</b>
Prices Paid	<b>22.8</b>	40.8	52.1	7.1	<b>33.7</b>	<b>40.9</b>	51.2	38.4	0.0	<b>51.2</b>
Prices Received	<b>2.6</b>	21.7	68.7	9.6	<b>12.0</b>	<b>29.7</b>	32.9	55.1	6.9	<b>26.0</b>
Number of Employees	<b>12.0</b>	20.3	68.7	9.6	<b>10.7</b>	<b>25.4</b>	24.0	60.9	11.1	<b>12.9</b>
Average Employee Workweek	<b>11.0</b>	14.9	72.3	12.4	<b>2.5</b>	<b>3.9</b>	19.5	58.8	13.0	<b>6.5</b>
Capital Expenditures	--	--	--	--	--	<b>16.1</b>	27.7	46.4	14.6	13.1

### 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 December 13, 2011.