



BUSINESS OUTLOOK SURVEY

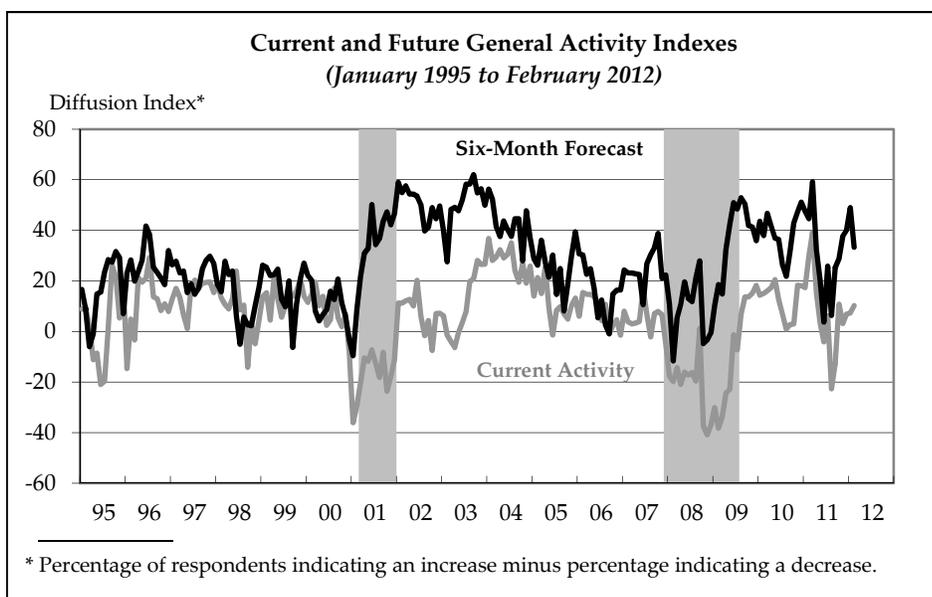
February 2012

Responses from manufacturing firms polled for this month's *Business Outlook Survey* suggest that regional manufacturing activity continued to expand in February. The survey's broad indicators for general activity, new orders, and shipments all increased from their readings in January. Firms reported near-steady employment levels but an increase in average work hours. More firms reported higher input prices this month, and a sizable share of firms reported price increases for their own manufactured goods. The survey's broad indicators of future activity fell from levels in recent months but continue to reflect optimism about future manufacturing growth.

Indicators Suggest Continued Expansion

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, edged higher from a reading of 7.3 in January to 10.2, its highest level since October (see Chart). The demand for manufactured goods also showed improvement this month: The new orders index was positive for the fifth consecutive month and increased from 6.9 to 11.7. The shipments index also remained positive and increased 9 points. The indexes for both delivery times and unfilled orders recorded slightly positive readings this month, compared with their negative readings in January.

Firms' responses suggest near-steady levels of employment this month. The current employment index, which has been positive for six consecutive months, fell from a reading of 11.6 in January to 1.1 this month, suggesting little overall growth in



employment. The percentage of firms reporting an increase in employment (14 percent) was only slightly greater than the percentage reporting decreases (13 percent). Firms reporting a longer workweek (20 percent) outnumbered those reporting a shorter one (10 percent), and the current workweek index increased 5 points.

Input and Output Prices Edge Higher

Indexes for prices paid and prices received both increased this month. Forty-two percent of the firms reported higher prices for inputs this month, up from 35 percent last month. The prices paid index increased 7 points and has now edged higher for four consecutive months. On balance, firms also reported a rise in prices for manufactured goods: More firms reported increases in prices (22 percent) than reported decreases (7 percent). The prices received index increased 4 points, its fourth consecutive increase.

Firms' Outlook Still Optimistic

The future general activity index fell from a reading of 49.0 in January to 33.3 this month. The index, which has increased for five consecutive months, remains at a relatively high level (see Chart). The indexes for future new orders and shipments paralleled the decline in the future activity index, decreasing 17 points and 19 points, respectively. The future employment index showed improvement, however, increasing 3 points. Firms expecting to increase employment over the next six months (33 percent) outnumbered those expecting to decrease it (11 percent).

In this month's special questions, firms were asked about their 2012 capital spending plans (see Special Questions). Nearly 36 percent of the firms indicated that total capital

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spending would be higher this year than in 2011; 23 percent indicated that spending would be lower. Firms that plan to increase capital spending noted that they expect to spend more on noncomputer equipment, software, and computer hardware, and they most frequently cited expected high sales growth, the need for replacement capital, and an improved cash flow or balance-sheet position as the reasons for their increased capital spending plans.

Summary

According to respondents to the February *Business Outlook Survey*, the region's manufacturing sector continued to grow this month. All of the broad indicators remained positive, with firms reporting a pickup in new orders and shipments. Price pressures were more widespread this month, and more firms also reported higher prices for their own goods. Firms' outlook and employment plans for the next six months remain generally optimistic.

Special Questions (February 2012)

1. Do you expect the following capital spending categories in 2012 to be higher than, lower than, or the same as last year?

	Higher %	Lower %	Same %	Diffusion Index (% higher - % lower)
Noncomputer equipment	32.1	25.0	39.3	7.1
Software	29.8	14.3	51.2	15.5
Computer and related hardware	23.8	17.9	52.4	6.0
Energy saving investments	17.9	14.3	59.5	3.6
Structures	13.1	17.9	63.1	-4.8
Total capital spending	35.7	22.6	34.5	13.1

2. If you plan to increase total capital spending what are the major factors behind your plan to **increase** capital spending? *

	%
Expected growth in sales is high	58.8
Need to replace information technology equipment	50.0
Need to replace other capital good	47.1
Firm's cash flow or balance-sheet position has improved	41.2
Capacity utilization is currently high	32.4
Energy saving investment	17.6
Cost or availability of external finance has improved	8.8

* Percentages may add to greater than 100 because firms were asked to indicate more than one factor if applicable.

BUSINESS OUTLOOK SURVEY <i>February 2012</i>	February vs. January					Six Months from Now vs. February				
	<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?	7.3	29.5	51.2	19.3	10.2	49.0	46.2	37.4	12.9	33.3
Company Business Indicators										
New Orders	6.9	24.9	59.1	13.1	11.7	49.7	46.9	33.8	14.4	32.5
Shipments	5.7	27.8	59.2	12.8	15.0	48.2	44.7	37.5	15.7	29.0
Unfilled Orders	-4.1	17.4	66.2	15.1	2.2	14.7	21.3	62.4	13.0	8.3
Delivery Times	-3.8	11.6	77.5	10.1	1.5	-5.6	13.8	66.5	16.5	-2.7
Inventories	-6.3	9.1	69.0	21.9	-12.9	3.3	27.7	45.7	23.8	3.9
Prices Paid	31.8	42.2	53.0	3.5	38.7	52.7	52.3	36.2	1.9	50.4
Prices Received	11.2	22.1	69.4	7.1	15.0	23.8	40.0	47.9	8.0	32.0
Number of Employees	11.6	13.7	73.1	12.6	1.1	19.1	33.1	53.3	10.6	22.5
Average Employee Workweek	5.0	19.8	65.1	9.7	10.1	9.2	24.6	59.7	13.7	10.8
Capital Expenditures	--	--	--	--	--	22.9	33.1	42.0	14.6	18.5

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 February 14, 2012.