



BUSINESS OUTLOOK SURVEY

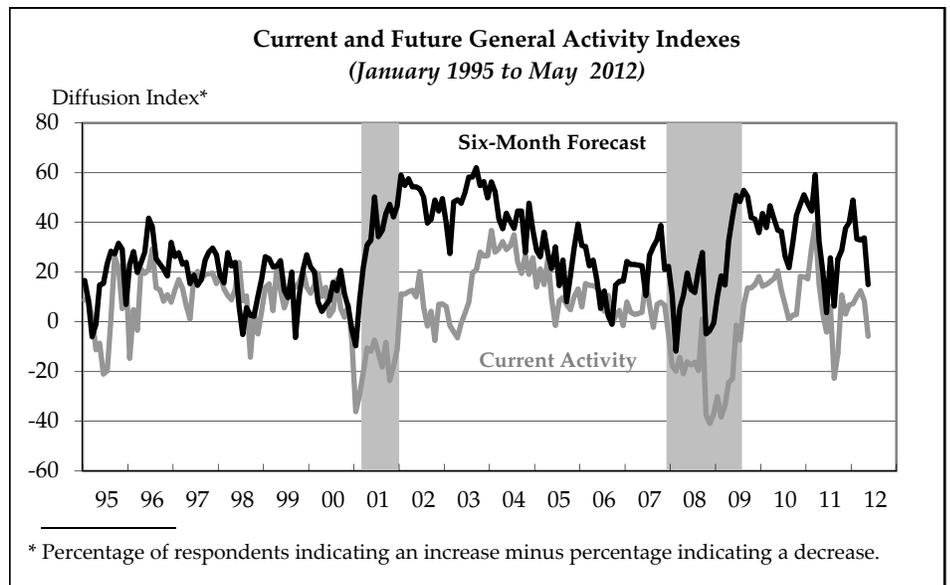
May 2012

Firms responding to the May *Business Outlook Survey* indicated that manufacturing growth fell back from the pace of recent months. The survey's broad indicators for general activity fell into negative territory for the first time in eight months. Indicators for new orders and employment also suggested slight declines from April. Input price pressures were less in evidence this month, and for the first time in nine months, more firms reported price declines for their products than reported increases. The survey's indicators of future activity remained positive but weakened considerably from April.

Indicators Suggest Slowing

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, fell from a reading of 8.5 in April to -5.8 in May (see Chart 1). The index for new orders fell four points, from 2.7 to -1.2, its first negative reading in eight months. The shipments index edged 1 point higher and remained just above zero. The indexes for current unfilled orders and delivery times both declined and registered negative readings, suggesting lower levels of unfilled orders and faster deliveries.

Firms' responses suggest a slight decline in employment this month. The current employment index, which had been positive for eight consecutive months, decreased 19 points, to -1.3. The percentage of firms reporting decreases in employment (16 percent) was slightly higher



than the percentage reporting increases (14 percent). Firms also reported a slight decrease in average hours worked compared with April.

Price Pressures on the Wane

Indexes for prices paid and prices received both decreased, suggesting that price pressures moderated this month. Fifteen percent of the firms reported higher prices for inputs this month, compared with 27 percent last month. The prices paid index declined 18 points. Firms also reported that prices received for their own goods fell: More firms reported price decreases (12 percent) than reported increases (8 percent). The prices received index decreased 14 points to its first negative reading in nine months.

Firms' Outlook Less Optimistic

The future general activity index fell

notably, from a reading of 33.8 in April to 15.0 in May (see Chart 1). The indexes for future new orders and shipments remained positive but fell 9 and 10 points, respectively. While still positive, the future employment index showed notable deterioration this month, decreasing 17 points.

In special questions this month, firms were asked about the factors that are influencing their production and hiring plans (see Special Questions). While 54 percent of the firms expect to increase production over the next six months, only 21 percent plan to increase employment; 22 percent expect to increase work hours without increasing staff, and 17 percent plan to increase production by increasing the productivity of existing staff. Firms were asked to rank

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the three most important factors restraining hiring. The most frequently cited reason was the expectation of slow sales growth. Among the top three factors restraining hiring, the need to keep operating costs low (50 percent) ranked nearly as high as expected low sales growth (51 percent). Uncertainty about health-care costs, the inability to find skilled workers, and uncertainty about regulations and policies were also prominently listed.

Summary

The May *Business Outlook Survey* suggests that growth in the region's manufacturing sector fell back from last month. Firms reported lower levels of activity and nearly flat new orders and employment. Overall price pressures were reported to be on the wane this month. The outlook among the reporting firms was notably less optimistic.

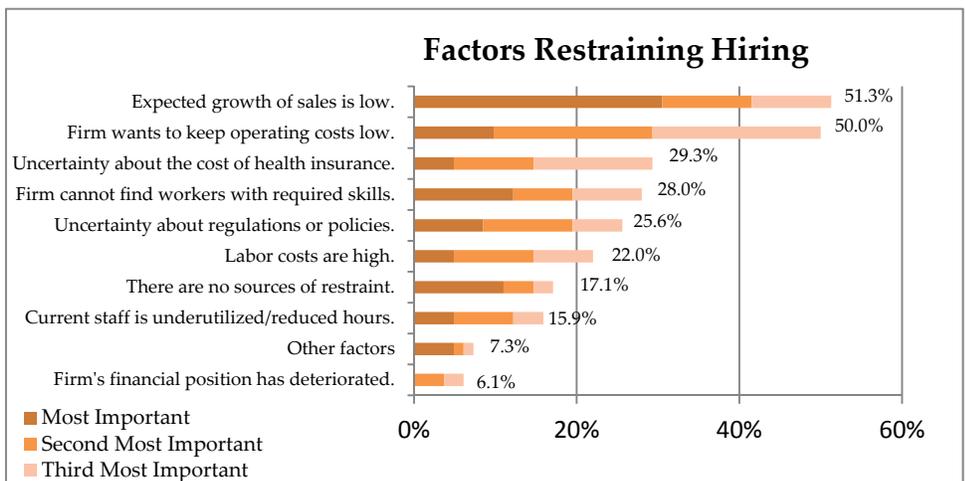
Special Questions (May 2012)

1. Which of the following best characterizes your short run production and employment plans over the next six months:

We do not expect to increase production	43.9 %
We expect to increase production	53.7 %

2. If you expect to increase production, this will be accomplished by:

Hiring additional workers	20.7%
Increasing work hours without hiring additional workers	22.0%
Increasing productivity without hiring additional workers	17.1%
NR	40.2%



BUSINESS OUTLOOK SURVEY <i>May 2012</i>	May vs. April					Six Months from Now vs. May				
	<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?	8.5	26.8	39.3	32.6	-5.8	33.8	32.4	47.1	17.4	15.0
Company Business Indicators										
New Orders	2.7	34.7	29.5	35.8	-1.2	35.4	41.4	43.5	15.1	26.3
Shipments	2.8	35.0	32.6	31.5	3.5	31.0	39.7	36.5	18.9	20.8
Unfilled Orders	3.2	11.2	64.4	20.6	-9.4	7.4	16.9	67.7	11.0	5.9
Delivery Times	-3.4	8.1	67.2	22.1	-14.0	-10.1	10.2	74.1	14.5	-4.3
Inventories	8.2	20.4	61.5	15.9	4.5	9.7	16.6	56.0	27.4	-10.8
Prices Paid	22.5	15.2	74.7	10.2	5.0	35.2	43.1	50.8	5.3	37.8
Prices Received	9.4	7.5	78.6	12.1	-4.5	20.4	18.1	69.4	10.4	7.7
Number of Employees	17.9	14.2	70.2	15.5	-1.3	27.8	24.8	60.9	14.2	10.6
Average Employee Workweek	-2.3	12.4	69.8	17.8	-5.4	7.5	15.3	63.4	16.4	-1.1
Capital Expenditures	--	--	--	--	--	21.7	21.9	50.8	16.6	5.3

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 May 15, 2012.