



BUSINESS OUTLOOK SURVEY

June 2004

Activity in the region's manufacturing sector continues to expand, according to firms surveyed for this month's *Business Outlook Survey*. Most indicators improved on their May readings and employment indexes remained positive. Firms continue to report a rise in prices for inputs and finished goods, although price indexes fell slightly from their recent highs. The region's manufacturing executives remain generally optimistic that business conditions will improve over the next six months.

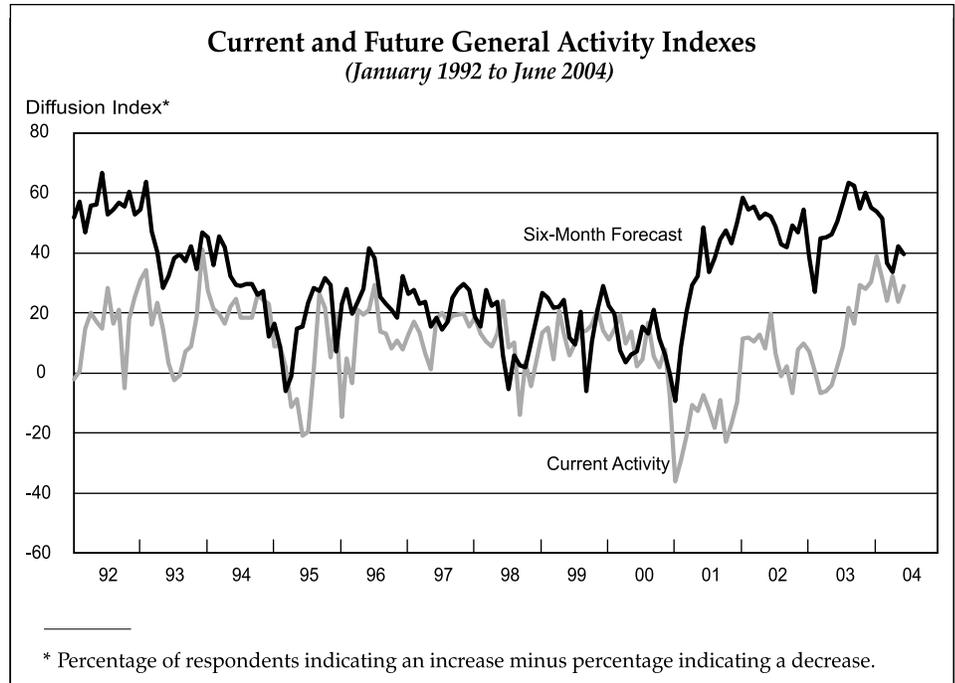
New Orders and Shipments Still Rising

The diffusion index of current activity, the survey's broadest measure of manufacturing conditions, increased from 23.8 in May to 28.9 this month (see Chart). The percentage of firms reporting increases (41 percent) exceeded the percentage reporting decreases (12 percent) for the 13th consecutive month. The new orders and shipments indexes also showed improvement this month, both increasing six points. Firms reported higher unfilled orders this month and longer delivery times, suggesting continued strength in manufacturing. Notably, the current inventories index remained positive for the third consecutive month and increased almost 10 points.

The overall improvement in manufacturing has been evident in responses regarding employment. The percentage of firms reporting increased employment this month (26 percent) was higher than the percentage reporting lower employment (9 percent). Still, the employment diffusion index, positive for nine consecutive months, fell six points. The average workweek index remained positive and near its reading in May.

Manufacturing Prices Continue to Rise

Firms reported higher costs again this month. Nearly 60 percent of the firms re-



ported paying higher prices for raw materials and other inputs, and only 8 percent reported paying lower prices. The prices paid diffusion index, which had risen about 30 points since the end of last year, fell from a high reading of 59.6 in May to 51.9 this month.

Over one-third of the firms reported that prices of their own manufactured goods were higher this month, while only 8 percent reported lower prices. The prices received index fell slightly from its 15-year high of 29.1 in May to 26.3 this month.

Six-Month Forecasts Moderate Slightly

Overall expectations for the next six months remain optimistic, although some future indicators fell slightly from their readings in May. The future general activity index decreased from 42.3 in May to 39.5 this month (see Chart). Fifty-one per-

cent of the firms expect increased activity over the next six months; 11 percent expect a decline. The future shipments and new orders indexes fell about three points but remain at relatively high levels.

Expectations regarding future employment also showed a slight moderation this month. The future employment diffusion index decreased five points, but the percentage of firms expecting higher employment over the next six months (31 percent) exceeds the percentage expecting lower employment (8 percent).

In a special question this month, firms were asked about their current rate of plant utilization compared with six months ago (see Special Questions). Currently, 64 percent of the firms indicated that they were operating at capacity utilization rates of greater than 75 percent. In contrast, only 38 percent reported capacity rates of

Special Questions (June 2004)

1. Which of the following best characterizes your capacity utilization rate?

	Current (%)	6 Months ago (%)
Less than 60	8	15
60-65	8	7
65-70	9	16
70-75	11	24
75-80	12	9
80-85	18	13
85-90	10	7
90-95	10	4
95-100	14	5
Total	100	100

2. What percent of your plant and equipment has become obsolete in the past year?

0%	25%
1-5%	38%
5-10%	22%
10-15%	13%
>15%	2%
Total	100%

Is this higher than normal? Yes 17% No 83%

greater than 75 percent six months ago. Twenty-four percent of firms indicated current capacity utilization rates of greater than 90 percent, compared with only 9 percent of firms six months ago. Firms were also asked what share of their plant and equipment had become obsolete in the past year. Sixty-three percent of the firms indicated that 5 percent or less of their capital had become obsolete in the past year. The remaining 37 percent of the firms reported higher percentages of capital obsolescence. Only 17 percent indicated that the rates were higher than for a normal year.

Summary

Most current indicators improved this month and continued to reflect growth in the region's manufacturing sector. Indicators for general activity, new orders, and shipments all rose from their readings in May. On balance, firms added to their payrolls again this month. Firms reported higher prices for inputs and their own manufactured goods, although diffusion indexes fell back from their high readings in May. Manufacturing executives remain generally optimistic about continued growth in manufacturing over the next six months.

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Summary of Returns

June 2004

	Previous Diffusion Index	June vs. May				Six Months from Now vs. June				
		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?	23.8	40.5	44.8	11.6	28.9	42.3	50.7	30.1	11.2	39.5
Company Business Indicators										
New Orders	18.3	40.8	41.1	16.8	24.0	39.7	53.1	19.3	16.7	36.4
Shipments	20.2	43.7	36.8	17.5	26.2	41.3	55.2	17.5	17.2	38.0
Unfilled Orders	12.8	24.9	60.4	10.7	14.2	13.8	22.3	47.0	19.9	2.4
Delivery Times	8.4	15.3	74.6	9.0	6.4	3.8	12.7	61.0	18.1	-5.5
Inventories	9.2	29.3	58.7	10.3	19.0	4.6	25.4	40.2	24.5	1.0
Prices Paid	59.6	59.6	32.4	7.8	51.9	35.8	47.9	37.5	8.2	39.7
Prices Received	29.1	33.9	58.5	7.6	26.3	29.0	35.9	48.0	7.3	28.6
Number of Employees	22.6	26.0	63.9	9.2	16.8	28.2	30.9	52.7	7.8	23.2
Average Employee Workweek	12.7	25.9	58.2	13.0	13.0	5.6	22.7	52.8	14.0	8.6
Capital Expenditures	—	—	—	—	—	21.6	26.4	35.6	7.8	18.6

Notes:

- (1) Items may not add up to 100 percent because of omission by respondents.
- (2) All data seasonally adjusted.
- (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.
- (4) Survey results reflect data received through June 14, 2004.