



BUSINESS OUTLOOK SURVEY

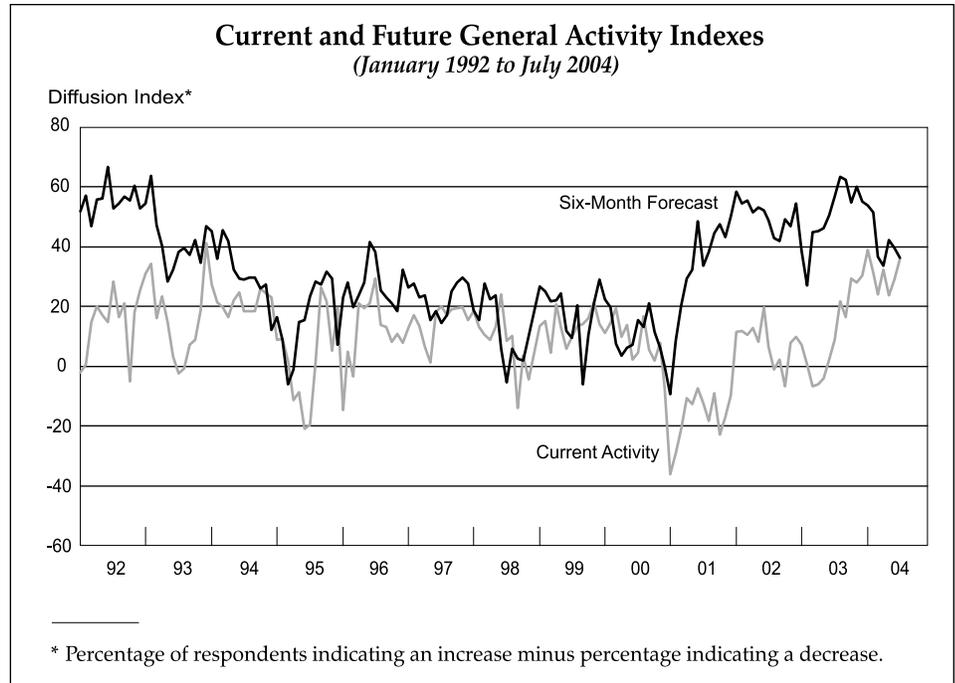
July 2004

Activity in the region's manufacturing sector continued to improve, according to firms surveyed for this month's *Business Outlook Survey*. The survey's broad indicators of activity increased from their readings in June, and firms reported increases in employment as well. Firms continued to report a rise in prices for inputs and finished goods, although the input price index fell slightly this month. The region's manufacturing executives were slightly less optimistic this month about overall manufacturing growth than in June, but expectations remained positive.

New Orders and Shipments Are Rising

The diffusion index of current activity, the survey's measure of overall manufacturing conditions, increased from 28.9 in June to 36.1. The percentage of firms reporting increases in activity (47 percent) exceeded the percentage reporting decreases (11 percent) for the 14th consecutive month and is at its highest reading in six months (see Chart). The new orders and shipments indexes showed notable improvement this month. The new orders index increased 11 points, while the shipments index increased 15 points. Firms reported a rise in unfilled orders and longer delivery times. The inventory index fell 15 points but remained positive for the fourth consecutive month.

The overall improvement in manufacturing has been evident in responses regarding employment. The percentage of firms reporting increased employ-



ment this month (31 percent) exceeded the percentage reporting decreased employment (6 percent). The employment diffusion index, which has now been positive for 10 consecutive months, increased from 16.8 in June to 24.6 (its highest reading in the history of the series). The average workweek index remained positive and near its reading in the previous two months.

Special questions this month asked firms about conditions in the labor market (see Special Questions). In the past three months, only 35 percent of firms have needed to increase wages in order to retain or attract workers. Among those firms for which wage increases were necessary, 84 percent reported

that the rate of increase was less than 4 percent. The remaining 16 percent indicated that the rate exceeded 4 percent.

Firms Report Higher Prices

Firms continued to report higher production costs again this month. Fifty percent of the firms reported higher prices for purchased inputs in July, but that is down slightly from the 60 percent in the previous month. The prices paid diffusion index fell from 51.9 in June to 46.3 this month.

Nearly 34 percent of firms reported that prices for their own manufactured goods were higher this month, while less than 1 percent reported lower prices. The prices received index increased from 26.3

in June to 33.1 this month—its highest reading since 1989.

Expectations for future prices inched higher this month. The future prices paid index increased five points and the future prices received index increased about three points.

Expectations Moderate Slightly

Overall expectations for the next six months remain generally optimistic, although some future indicators fell slightly again this month. The future general activity index decreased slightly, from 39.5 in June to 36.3 (see Chart). Fifty-one percent of firms expect an expansion in activity over the next six months and only 15 percent expect a contraction. The future new orders index declined five points, but the future shipments index was virtually unchanged.

Expectations regarding future employment remained optimistic, although the employment diffusion

index decreased slightly this month (from 23.2 in June to 20.9). The percentage of firms expecting higher employment over the next six months (33 percent) exceeds the percentage expecting lower employment (12 percent).

Summary

Most current indicators improved this month and continue to reflect growth in the region's manufacturing sector. Indicators for general activity, new orders, and shipments all rose from their readings in June. The current employment index also showed notable improvement. Indicators for manufacturing prices suggest that recent cost increases are continuing to place upward pressure on prices of manufactured goods. Manufacturing executives remain generally optimistic about continued growth in their sector over the next six months, although expectations have moderated from recent higher levels.

Special Question (July 2004)

In the past three months, have you had to increase wages or wage offers to retain or attract new workers?

	Percentage
Yes:	34.9%
No:	65.1%
Total	100.0%
If yes, by how much?	
0-2%	13.2%
2-4%	71.1%
4-6%	13.1%
6-8%	2.6%
more than 8%	0.0%
Total	100.0%

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Summary of Returns

July 2004

	Previous Diffusion Index	July vs. June				Six Months from Now vs. July				
		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?	28.9	47.3	40.8	11.2	36.1	39.5	50.7	28.7	14.5	36.3
Company Business Indicators										
New Orders	24.0	48.3	37.6	13.0	35.3	36.4	51.0	20.8	19.4	31.6
Shipments	26.2	48.8	43.5	7.5	41.3	38.0	52.8	24.2	14.4	38.4
Unfilled Orders	14.2	27.5	60.5	8.0	19.4	2.4	23.2	51.1	19.1	4.0
Delivery Times	6.4	23.4	65.8	8.1	15.3	-5.5	12.9	64.5	18.9	-5.9
Inventories	19.0	23.2	55.3	19.1	4.1	1.0	25.2	45.1	22.5	2.7
Prices Paid	51.9	50.1	45.2	3.7	46.3	39.7	52.1	34.7	7.6	44.5
Prices Received	26.3	33.6	60.4	0.5	33.1	28.6	39.7	45.5	7.8	31.9
Number of Employees	16.8	30.7	63.2	6.1	24.6	23.2	32.6	50.0	11.8	20.9
Average Employee Workweek	13.0	22.3	67.8	9.9	12.3	8.6	23.6	55.1	19.3	4.3
Capital Expenditures	—	—	—	—	—	18.6	33.1	39.8	5.1	28.0

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 July 12, 2004.