



BUSINESS OUTLOOK SURVEY

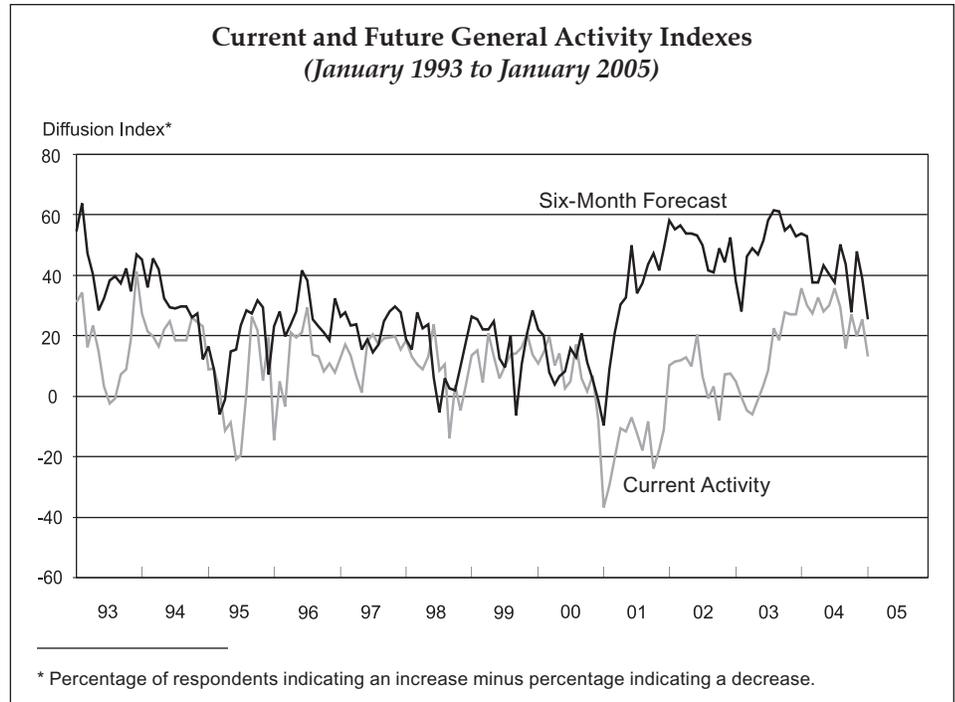
January 2005

Activity in the region's manufacturing sector continues to expand, but at a slower rate than at the end of last year. Most of the survey's broad indicators of activity show a more moderate pace of growth than in December. Indicators for general activity, new orders, and shipments remained positive but fell from their readings in December. Firms continue to report a rise in prices for inputs and for their own finished goods. The region's manufacturing executives were less optimistic this month than in December, but expectations remain positive.

Current Indicators Are Lower This Month

The diffusion index of current activity, the broadest measure of manufacturing conditions, decreased from a revised reading of 25.4 in December to 13.2 this month.* The index has remained positive for 20 consecutive months, but January's reading is the lowest in 18 months (see Chart). The percentage of firms reporting increases in activity this month (35 percent) was greater than the percentage reporting decreases (22 percent). Nearly 43 percent report no change in general activity compared to December. The new orders and shipments indexes also remained positive this month but showed similar declines. The new orders index fell 11 points; the shipments index fell 10 points. Indicators for unfilled orders and delivery times were both negative

* The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on January 13, 2005. The information is available at: www.philadelphiafed.org/econ/bos/historicalrevisions2005.html. Revisions for selected series from 1997 to 2004 are listed on pages 3-4 of this release.



this month and fell from their readings in December.

Despite the weakening in most broad indicators, the survey's employment index was slightly higher this month. The current employment index increased from a revised reading of 14 in December to 17 this month. The percentage of firms reporting higher employment (30 percent) exceeded the percentage reporting lower employment (13 percent) for the 16th consecutive month. The current work week index decreased eight points but remained positive.

Prices Are Reported Higher This Month

Firms continue to report higher production costs this month. More than 66 percent of the firms reported higher

prices for purchased inputs in January, up from 56 percent in the previous month. The diffusion index increased markedly from a revised reading of 53.8 in December to 66.1 this month.

Thirty-one percent of firms reported that prices for their own manufactured goods were higher this month, while 7 percent reported lower prices. The prices received index increased slightly from 21.1 in December to 24.7 this month. Expectations about future prices, however, were lower this month. The future prices paid index decreased 20 points, and the future prices received index fell almost 12 points.

Six-Month Indicators Fall Again

Overall expectations for the next six months remain generally optimistic, although the index for future activity fell

for the second consecutive month. The future general activity index fell from a revised reading of 39.0 in December to 25.5, its lowest reading since March 2001 (see Chart). The percentage of firms expecting improvement in business conditions over the next six months (39 percent) continues to exceed the percentage expecting deterioration (14 percent). Other future indicators declined this month: The future new orders index fell seven points, and the future shipments index fell six points. On balance, firms expect unfilled orders to increase modestly over the next six months and delivery times to decrease. The percentage of firms that expect inventories to decrease over the next six months (29 percent) is greater than the percentage that expect them to increase (19 percent).

Firms' expectations for future employment improved modestly this month. The future employment index increased from a revised 23.3 in December to 25.9 in January. More than 33 percent of the firms anticipate adding workers

over the next six months, while only 7 percent plan reductions. On balance, firms expect average work hours to be nearly unchanged over the next six months.

Firms were asked about their plans for spending on new plant and equipment over the next year, relative to actual spending this past year (see Special Questions). About 44 percent plan to increase capital spending in 2005 compared with 2004, 16 percent plan to spend less, and 40 percent will spend about the same as they did last year. This represents a slight decline in the percentage of firms planning higher capital outlays compared with a similar survey conducted at the beginning of 2004. The most frequently cited reasons for the planned increases in spending were the need to replace capital goods, expected high growth in sales, and high capacity utilization rates. The reasons most cited for not increasing capital spending were a limited need to replace equipment, including information

technology equipment, and expected low growth in sales.

Summary

Indicators continue to point to expansion of the region's manufacturing sector, although indicators for general activity, new orders, and shipments declined from their readings in December. Despite evidence of moderation, 30 percent of the surveyed firms report higher employment this month and the current employment index increased modestly. Firms continue to report higher costs for inputs and higher prices for manufactured goods this month. Most broad indicators of future conditions fell from their readings in December, although the outlook for employment growth improved modestly. The percentage of firms expecting increases in capital spending in 2005 was slightly lower than the percentage at the beginning of 2004.

BUSINESS OUTLOOK SURVEY Summary of Returns January 2005

	Previous Diffusion Index*	January vs. December				Six Months from Now vs. January				
		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?	25.4	35.0	42.8	21.7	13.2	39.0	39.3	38.7	13.8	25.5
Company Business Indicators										
New Orders	20.9	33.9	42.1	24.1	9.8	43.7	48.2	33.9	11.3	36.9
Shipments	25.6	35.8	39.8	19.9	15.9	35.0	43.2	36.7	13.7	29.5
Unfilled Orders	3.0	20.0	54.9	25.1	-5.2	7.4	19.7	61.0	11.4	8.3
Delivery Times	-1.1	10.9	69.9	14.1	-3.2	-1.0	9.8	68.7	13.2	-3.5
Inventories	-4.5	22.3	52.6	25.1	-2.7	-3.1	19.0	43.9	29.4	-10.4
Prices Paid	53.8	67.4	30.6	1.3	66.1	62.2	49.0	32.8	6.8	42.2
Prices Received	21.1	31.4	56.6	6.7	24.7	40.5	34.6	50.1	6.0	28.6
Number of Employees	14.0	30.4	52.9	13.4	17.0	23.3	32.9	52.9	7.0	25.9
Average Employee Workweek	16.8	25.7	57.4	16.6	9.1	5.4	16.9	62.8	10.9	6.0
Capital Expenditures	—	—	—	—	—	27.4	28.8	40.9	5.9	22.9

* December data were revised, along with historical data, to incorporate new seasonal factors (see note on front page).

Notes:

- (1) Items may not add up to 100 percent because of omission of 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 January 14, 2005.

Special Questions (January 2005)

1. How do you expect your firm's spending on new plant and equipment to change over the next six to 12 months relative to your actual spending over the past six to 12 months?

	Jan 2005 (%)	Jan 2004 (%)
Increase	43.8	58.2
Decrease	15.7	12.7
No change	40.4	29.1

2. What are the major factors behind your plan to increase capital spending?*

	%
Expected growth of sales is high	48.7
Capacity utilization is currently high	46.2
Need to replace information technology equipment	33.3
Need to replace other capital goods	56.4
Cost or availability of external finance has improved	2.6
Other factors	35.9

3. What are the major factors behind your plan not to increase capital spending?*

	%
Expected growth of sales is low	33.3
Capacity utilization is currently low	27.1
Limited need to replace information technology equipment	37.5
Limited need to replace other capital goods	37.5
Cost or availability of external finance has not improved	4.2
Firm's cash flow or balance-sheet position has not improved	6.3
Outsourcing	12.5
Other factors	33.3

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

Business Outlook Survey Selected Revised Diffusion Indexes (1997-2004)

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current General Activity												
1997	12.8	17.0	13.5	6.6	1.1	18.0	20.3	17.2	19.2	19.4	19.7	15.3
1998	18.5	13.2	10.6	8.9	13.2	23.9	8.5	10.4	-14.0	3.6	-4.8	4.3
1999	13.5	15.1	4.5	20.8	13.1	5.7	10.0	13.8	14.1	16.0	20.9	13.9
2000	10.9	14.5	19.6	10.2	14.0	2.5	4.9	17.2	5.7	1.7	7.0	-8.1
2001	-36.9	-29.4	-20.2	-10.6	-11.6	-7.0	-12.3	-17.9	-8.4	-23.8	-17.8	-11.1
2002	10.2	11.5	11.9	12.9	10.0	20.3	6.5	-0.6	3.3	-7.9	7.3	7.4
2003	5.0	-0.3	-4.7	-6.2	-1.1	3.4	8.4	22.5	18.4	27.8	26.9	26.9
2004	35.5	30.1	27.5	32.8	27.9	30.0	35.5	29.2	15.9	27.2	19.7	25.4
Current New Orders												
1997	19.1	18.1	16.0	9.9	5.5	16.7	24.6	17.0	21.1	17.1	17.5	16.3
1998	14.9	21.5	14.7	11.2	16.2	17.5	8.8	10.6	-1.1	7.7	-7.0	7.2
1999	18.4	16.9	19.5	18.3	19.0	14.5	10.8	17.6	10.4	28.8	20.1	16.7
2000	4.2	9.5	16.9	15.7	14.2	7.5	7.8	14.5	14.1	3.9	2.5	3.6
2001	-29.2	-19.9	-5.9	-7.7	-6.2	-7.5	-5.7	-16.7	0.1	-10.6	-18.4	-6.3
2002	7.5	7.2	8.4	12.6	12.1	21.5	6.3	4.1	5.4	3.0	10.5	6.7
2003	9.3	8.2	-0.9	-8.0	1.3	3.4	10.0	19.6	20.2	28.5	22.8	33.5
2004	31.6	25.9	24.8	26.5	22.6	26.8	34.2	23.2	26.8	23.5	20.8	20.9
Current Shipments												
1997	14.5	12.0	19.3	15.9	10.0	8.8	24.8	17.0	15.9	14.4	15.0	11.8
1998	16.5	16.8	12.4	13.9	11.7	21.5	6.6	18.2	8.3	15.2	-1.0	13.9
1999	17.2	14.3	12.8	12.1	16.4	10.8	15.7	16.3	8.8	25.0	31.0	14.9
2000	15.9	21.0	21.7	15.3	12.6	5.0	15.0	14.7	14.2	-8.6	18.3	3.5
2001	-31.2	-31.6	-4.8	-2.6	-1.9	-5.8	-15.9	-12.6	-7.7	-10.9	-15.5	-8.8
2002	8.9	11.4	6.2	13.3	15.4	15.1	7.1	1.2	9.6	0.7	6.1	-1.2
2003	14.8	0.8	1.7	-5.1	0.7	1.8	9.2	18.1	15.9	27.5	28.9	33.8
2004	29.1	21.0	25.0	28.6	24.2	29.0	39.7	32.8	25.4	26.5	21.4	25.6
Current Unfilled Orders												
1997	-10.7	-5.2	-9.9	-6.0	-6.5	-2.4	-0.4	-4.7	-1.6	-7.1	-5.9	-7.7
1998	8.5	-0.3	-2.8	-4.6	-0.1	2.0	6.0	-6.4	-9.3	-10.2	-11.0	-4.4
1999	-4.5	-5.7	-2.9	-0.9	-5.4	-8.4	-4.8	3.5	-2.2	0.4	0.0	-1.0
2000	-1.4	4.5	2.6	0.0	-4.1	-12.8	-10.6	3.0	-16.5	-2.1	0.1	-14.9
2001	-23.7	-15.0	-19.7	-19.1	-16.2	-13.4	-16.2	-20.5	-12.2	-12.7	-13.2	-15.6
2002	-8.2	-7.4	-2.3	1.4	-9.7	6.8	-6.2	-9.5	-7.2	-17.0	-4.9	-4.5
2003	-4.8	-6.6	-8.1	-15.0	-6.6	0.3	1.8	6.7	6.7	11.7	8.7	11.8
2004	9.9	6.7	9.4	1.0	13.5	10.3	17.2	3.9	2.8	-2.2	-1.8	3.0

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current Delivery Times												
1997	-10.3	-5.3	-3.4	-8.0	-12.6	-4.2	-4.8	-2.3	0.2	-8.7	-6.0	-8.2
1998	7.3	-5.7	-4.4	-4.7	1.4	-6.0	5.6	0.3	-5.8	-1.3	-8.2	-7.2
1999	8.7	-3.0	-6.4	-0.3	-5.5	-1.2	-4.2	-1.7	-5.2	-6.4	-0.7	-8.2
2000	-3.3	-0.2	-1.1	0.0	7.0	-11.3	-6.4	-10.3	-15.1	-6.1	-9.9	-12.3
2001	-18.3	-9.6	-24.2	-17.7	-12.5	-13.6	-14.0	-26.9	-13.2	-15.2	-9.8	-11.7
2002	-12.0	4.0	-4.2	-6.3	-8.8	-1.5	-10.9	-4.7	-2.3	-10.6	-8.0	-3.7
2003	-6.6	-13.6	-9.4	-6.2	-9.7	-8.1	-4.8	0.2	-3.6	3.2	0.9	0.5
2004	-1.4	7.1	17.2	0.9	9.3	5.5	14.8	-5.8	2.9	0.3	-2.9	-1.1
Current Inventories												
1997	-4.7	-8.1	-13.2	-7.8	-13.3	-5.2	-6.2	-5.3	-4.4	-12.3	-6.9	-8.4
1998	-4.8	-6.9	-2.9	-16.3	-1.4	-6.7	-10.0	-14.1	-14.7	-15.1	-14.0	-15.9
1999	-17.6	-9.6	-10.5	-1.1	-16.0	-12.0	-9.8	-6.6	-2.0	-9.9	8.1	2.8
2000	4.6	-6.1	2.5	5.7	5.5	-1.7	-1.6	-12.0	-1.0	6.1	-4.7	-10.3
2001	-9.7	-3.2	-24.8	-18.8	-11.0	-19.0	-18.1	-22.7	-25.6	-19.0	-14.3	-13.3
2002	-14.5	-10.6	-8.9	-13.2	-16.7	-9.7	-14.5	4.5	-8.7	-4.2	-4.9	14.7
2003	-13.3	-11.4	-9.9	-4.7	-7.0	4.5	3.1	2.8	1.7	-4.8	-11.4	-3.9
2004	-1.8	2.0	-11.0	9.2	8.4	15.0	3.2	1.8	2.7	2.4	-4.2	-4.5
Current Prices Paid												
1997	8.3	12.2	11.7	16.8	15.2	13.5	17.3	16.7	12.6	17.4	17.9	20.4
1998	16.6	11.3	9.9	3.0	2.7	2.9	-4.6	-7.9	-5.2	-9.5	-9.0	-8.0
1999	-7.1	-6.8	0.5	2.2	2.6	8.9	14.8	12.2	11.4	27.5	27.0	26.1
2000	25.8	38.6	29.2	30.9	28.9	26.9	27.1	27.4	24.4	26.3	23.2	17.9
2001	16.5	12.2	10.0	4.9	-1.0	13.5	-3.1	-11.0	-13.4	-16.4	-13.8	-9.0
2002	-2.0	-5.7	-2.7	4.9	15.4	19.0	21.0	21.3	19.6	19.8	18.2	18.4
2003	15.8	16.1	18.0	21.4	6.9	4.9	-1.8	15.0	21.4	23.6	27.4	32.4
2004	36.9	43.0	49.6	51.3	56.4	50.8	50.2	54.3	56.7	57.2	55.4	53.8
Current Prices Received												
1997	2.2	3.7	-3.3	-1.9	-1.6	0.7	3.6	0.6	-1.3	1.1	5.2	1.8
1998	3.2	0.3	-1.9	1.0	-1.3	-2.5	-6.6	-8.4	-10.9	-11.8	-14.2	-11.9
1999	-14.5	-6.2	-8.9	-7.7	-7.4	-10.7	-3.8	2.5	2.5	5.3	10.7	3.5
2000	8.6	9.1	7.4	16.5	5.9	5.2	6.9	1.6	-0.5	3.3	1.2	-1.2
2001	-3.8	-2.4	-5.6	-9.0	-5.2	-8.6	-11.0	-11.7	-12.9	-12.2	-11.4	-12.5
2002	-6.8	-4.3	-1.3	0.8	3.3	6.8	1.6	2.0	3.6	-4.6	-3.7	4.3
2003	6.0	1.9	-7.0	7.9	-2.1	-8.5	-7.0	0.9	3.2	6.1	6.9	7.4
2004	10.3	18.7	18.9	14.6	27.2	27.7	33.8	33.6	34.6	33.2	30.3	21.1
Current Number of Employees												
1997	5.0	2.6	4.6	4.4	6.3	8.6	5.3	10.0	-3.0	2.6	3.7	9.5
1998	0.9	15.1	9.0	-5.0	4.5	5.7	4.5	6.0	0.4	8.4	3.1	3.3
1999	2.3	-0.5	-1.2	2.4	3.4	1.8	1.1	3.7	8.4	9.4	17.0	15.7
2000	12.5	14.7	13.4	12.8	7.1	3.3	7.1	14.2	6.6	2.0	-3.9	-9.6
2001	-20.8	-8.7	-9.4	-13.4	-14.6	-13.9	-9.9	-11.3	-17.5	-25.2	-21.0	-19.7
2002	-8.8	-15.6	-6.9	-3.8	1.3	-1.8	-9.5	-9.7	-3.4	-3.5	0.5	-3.4
2003	-5.8	-3.1	-9.4	-10.6	-13.4	-10.5	-2.4	-4.5	-2.3	5.6	2.9	19.2
2004	15.9	12.5	12.5	13.5	20.4	18.2	22.9	20.0	22.9	15.0	15.4	14.0
Current Average Employee Workweek												
1997	6.2	-0.2	-0.3	-0.7	-2.7	-2.9	-1.3	0.0	-3.2	-0.5	-1.7	1.8
1998	6.2	8.9	-0.4	-9.3	-1.1	4.8	-3.7	-2.3	-3.8	-0.5	-17.8	7.0
1999	-6.9	-6.7	6.8	8.0	1.3	6.3	-1.2	5.0	-3.5	6.3	6.0	1.1
2000	0.4	7.0	14.2	5.5	4.5	-3.9	4.4	1.1	-0.6	-9.2	-0.9	-13.7
2001	-26.4	-24.1	-14.7	-25.4	-18.5	-16.1	-19.0	-22.1	-18.4	-20.6	-11.6	-15.6
2002	-8.4	-4.7	-10.1	-1.8	0.6	1.2	-8.3	-5.5	-1.2	-4.0	-5.4	-3.7
2003	-0.6	-7.2	-12.4	-3.8	-8.3	-6.3	3.4	6.8	4.0	12.8	1.6	14.8
2004	11.9	22.1	15.3	12.4	13.6	14.3	13.2	8.2	9.0	6.0	2.0	16.8
Future General Activity												
1997	26.4	27.8	23.3	23.8	15.5	18.7	14.6	17.0	24.8	27.9	29.6	27.6
1998	18.7	15.6	27.8	22.4	23.9	6.1	-5.3	5.7	2.5	2.0	9.9	18.4
1999	26.4	25.3	22.1	22.2	24.6	12.4	9.6	20.1	-6.4	10.5	20.6	28.5
2000	22.1	20.2	7.8	3.8	6.5	8.2	15.7	12.9	20.7	11.1	5.4	-1.3
2001	-9.8	8.9	21.1	30.5	32.7	49.8	34.1	37.4	43.7	47.3	41.7	48.8
2002	58.0	55.2	56.4	53.8	53.7	53.3	49.9	41.5	41.0	49.0	44.4	52.6
2003	38.0	27.9	46.1	48.9	47.0	51.7	58.0	61.5	61.3	54.9	56.4	53.0
2004	53.8	52.8	37.8	37.6	43.1	40.4	37.6	50.3	43.6	27.8	47.9	39.0

* Revised historical data prior to 1995 and revisions to other series are available on the Bank's Internet site at www.philadelphiafed.org/econ/boshistory.html.