



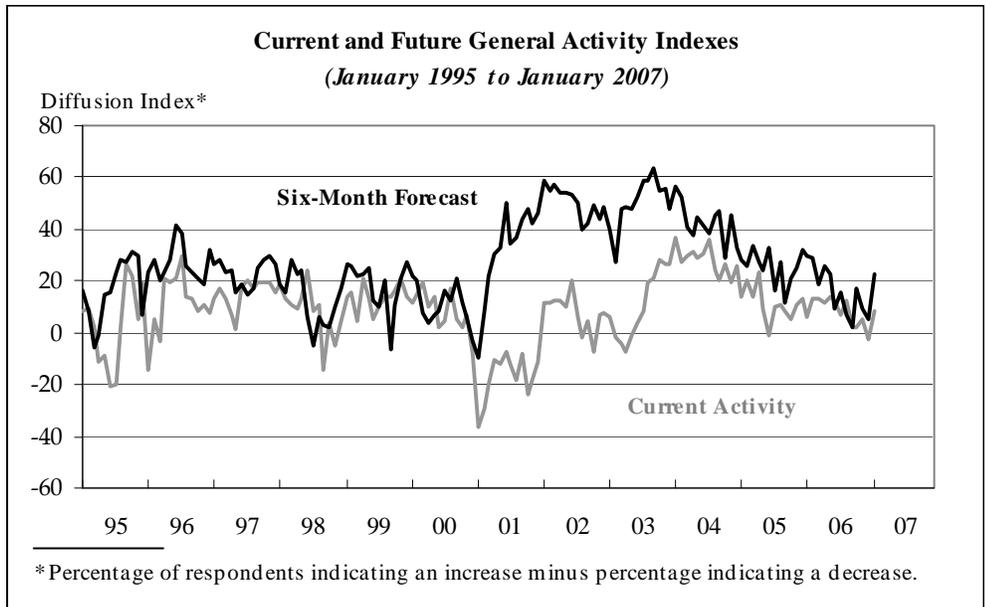
# BUSINESS OUTLOOK SURVEY

## January 2007

Economic conditions in the region's manufacturing sector improved in January, according to firms polled for this month's *Business Outlook Survey*. Indicators for general activity and shipments reflect modest growth this month, although the new orders index showed virtually no growth. Consistent with modest growth in activity, input price pressures moderated again this month. Manufacturing executives were substantially more optimistic about future activity this month; most future indicators rose from their readings in December.

### Indicators Suggest Modest Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from a revised reading of -2.3 in December to 8.3 (see Chart).<sup>\*</sup> This month, 25 percent of the firms reported increased activity; 17 percent reported decreased activity. The new orders and shipments indexes offer mixed signals about the strength of this month's overall improvement. Demand for manufactured goods has not yet recovered much: The new orders index rose two points, from -0.9 to 1.3, after negative readings for two consecutive months. The shipments index increased 10 points from December; 37 percent of the firms reported an increase in shipments; 13



percent reported a decrease. Indexes for delivery times and unfilled orders remained negative, indicating shorter delivery times and a decline in unfilled orders.

Evidence of modest growth in manufacturing is suggested by replies concerning employment and hours worked. The percentage of firms reporting an increase in employment (21 percent) was somewhat higher than the percentage reporting decreases (13 percent). The current employment index was virtually unchanged from its revised December reading. The average workweek index edged four points higher, but the percentage of firms reporting longer hours (16 percent) was nearly the same as the percentage reporting shorter hours (15 percent).

### Cost Pressures Moderate Again

Respondents reported higher costs for inputs again this month, but the percent-

age of firms continued to decrease. The prices paid index has now fallen for six straight months (see Chart on page 2). Twenty-four percent of the firms reported higher input prices this month; 12 percent reported lower input prices.

The prices received index edged three points higher. Still, the largest percentage of manufacturers reported steady prices (72 percent); 19 percent reported higher prices, and 7 percent reported lower prices.

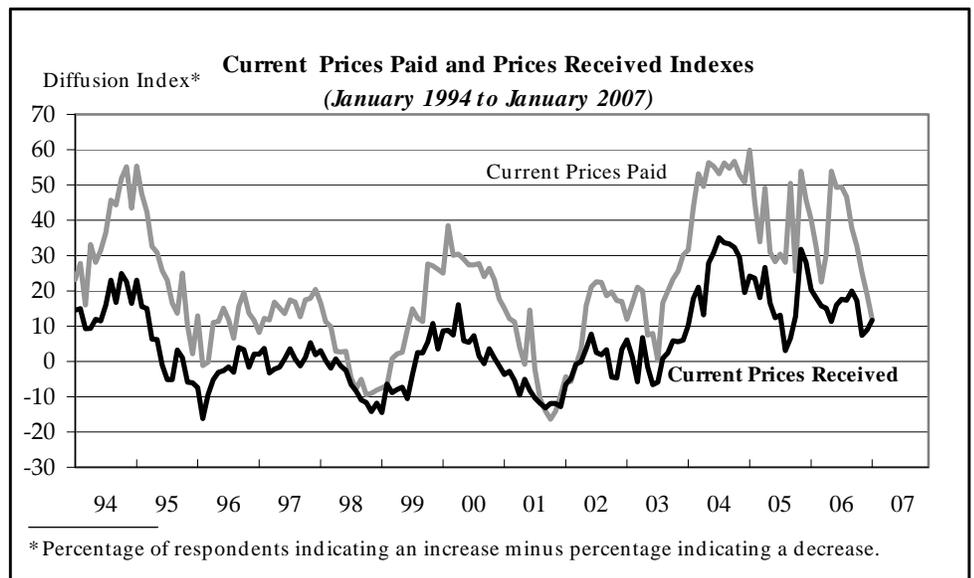
### Forecasts Are More Optimistic

Expectations for manufacturing growth over the next six months showed significant improvement. The future general activity index increased from a revised reading of 5.4 in December to 22.4 in January, its highest level in nine months (see Chart). The indexes for future new orders and shipments also increased, 11 and 12 points, respectively.

<sup>\*</sup>The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on Thursday, January 11, 2007. Revisions for selected series from 1999 to 2006 are listed on pages 3-4 of this release. The full set of revised historical data is available at: [philadelphiafed.org/econ/bos/historicalrevisions2007.html](http://philadelphiafed.org/econ/bos/historicalrevisions2007.html).

The future employment index increased five points; 36 percent of the firms expect to increase employment over the next six months; 15 percent expect decreased employment.

In special questions this month, firms were asked about their expectations for capital spending over the next six to 12 months relative to actual spending during the past year (see Special Questions, page 3). Over 40 percent of the firms said they plan to increase capital spending—nearly the same percentage as at the end of last year. Nearly 22 percent said they plan to decrease spending, up from 15 percent at the end of last year. Forty-one percent of the firms said actual capital spending in 2006 was higher than had been planned at the beginning of the year; 20 percent said capital spending was lower than originally planned. The most frequently cited reasons for planned increases in spending for 2007 were the need to replace capital goods, a high current capacity utilization rate, and high expected growth of sales.



### Summary

Conditions in the region's manufacturing sector improved slightly this month. Indicators for general activity, shipments, and employment suggest some growth, although the indicator for new orders reflects continued weakness. Firms reported that cost pressures are continuing

to moderate, and less than one-fifth of the firms reported higher prices for their own finished manufactured goods. Indicators for the next six months improved notably this month.

<b>BUSINESS OUTLOOK SURVEY</b> <b>(January 2007)</b>	January vs. December					Six Months from Now vs. January				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>
What is your evaluation of the level of general business activity?	-2.3	24.9	56.7	16.5	8.3	5.4	42.5	30.1	20.1	22.4
Company Business Indicators										
New Orders	-0.9	29.2	42.7	27.9	1.3	12.7	44.3	33.2	20.8	23.4
Shipments	14.0	36.5	48.9	12.6	23.9	16.5	47.7	31.1	19.1	28.5
Unfilled Orders	-18.6	13.2	58.3	28.5	-15.4	-3.1	16.3	60.2	21.1	-4.8
Delivery Times	-4.9	9.1	73.8	16.2	-7.1	-7.0	8.4	72.2	17.7	-9.3
Inventories	-0.9	20.2	58.0	19.8	0.4	3.4	18.7	51.7	27.5	-8.8
Prices Paid	19.0	23.6	61.4	11.7	11.9	33.2	41.0	44.9	10.9	30.1
Prices Received	8.9	18.6	72.3	7.0	11.6	26.0	41.9	45.1	10.8	31.1
Number of Employees	7.5	20.9	60.5	13.0	7.9	14.7	35.6	45.8	15.4	20.2
Average Employee Workweek	-2.3	16.3	67.5	14.5	1.8	-3.8	19.8	64.3	13.1	6.7
Capital Expenditures	--	--	--	--	--	4.4	34.2	42.2	10.1	24.0

#### 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 January 16, 2007.

### Special Questions (January 2007)

1. Do you expect your firm's spending on new plant and equipment over the next six to 12 months to increase, decrease, or remain more or less unchanged relative to your actual spending over the past six to 12 months?

	January 2007 %	January 2006 %	January 2005 %	January 2004 %
Increase	40.2	39.2	43.8	58.2
Decrease	21.7	15.2	15.8	12.7
Unchanged	38.1	45.6	40.4	29.1

2. Were your actual capital expenditures in 2006 above, below, or the same as your plans at the beginning of the year?

Above	41.2 %
Below	19.6%
Same as	39.2%
Total	100.0%

3. What are the major factors behind your plan to **increase** capital spending? (Top five chosen)\*

	January 2007 %	January 2006 %
Need to replace other capital goods	60.5	51.3
Capacity utilization is currently high	53.5	46.2
Expected growth of sales is high	48.8	48.7
Need to replace information technology equipment	23.3	33.3
Firm's cash flow or balance sheet position has improved	23.3	20.5

4. What are the major factors behind your plan to **decrease** capital spending? (Top four chosen)\*

	January 2007 %	January 2006 %
Limited need to replace other capital goods	48.0	56.4
Limited need to replace information technology equipment	36.0	56.4
Firm's cash flow or balance sheet position has not improved	28.0	10.3
Capacity utilization is currently low	24.0	30.8

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

### Business Outlook Survey Selected Revised Diffusion Indexes (1999-2006)

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Current General Activity</b>												
1999	13.8	15.3	4.5	20.8	13.0	5.6	9.9	13.7	13.9	16.0	20.7	14.0
2000	11.5	14.7	19.5	10.2	13.9	2.4	4.7	17.0	5.5	1.9	6.9	-8.0
2001	-36.2	-29.3	-20.2	-10.6	-11.8	-7.3	-12.4	-18.2	-8.2	-23.6	-18.0	-11.1
2002	11.2	11.2	12.1	12.4	10.1	20.1	6.3	-1.7	4.4	-7.6	7.1	7.4
2003	6.2	-1.7	-3.9	-7.0	-0.7	3.5	8.4	19.8	21.2	28.0	26.7	26.9
2004	37.0	27.6	29.3	31.0	28.9	30.6	35.8	24.3	20.4	26.8	19.5	25.9
2005	14.3	20.1	14.1	23.2	9.1	-1.1	10.1	10.6	8.8	5.1	10.7	12.8
2006	6.4	13.2	12.9	11.7	13.6	12.1	6.5	12.6	2.3	2.3	5.4	-2.3
<b>Current New Orders</b>												
1999	18.6	17.1	19.5	18.3	19.0	14.5	10.9	17.4	10.2	28.8	20.1	16.6
2000	4.4	9.8	16.9	15.7	14.2	7.6	7.8	14.3	13.8	3.8	2.6	3.6
2001	-28.9	-19.5	-5.9	-7.8	-6.2	-7.6	-5.4	-17.2	-0.3	-10.8	-18.4	-6.4
2002	8.3	7.8	8.6	12.1	12.1	21.9	7.0	2.9	5.1	2.4	10.1	6.7
2003	10.4	8.8	-0.4	-9.0	1.5	4.2	11.4	17.1	20.6	26.8	22.3	33.4
2004	33.0	26.3	26.0	25.4	23.1	28.5	36.2	19.2	28.0	20.2	21.0	20.7
2005	10.3	12.3	15.3	19.3	16.5	4.8	7.2	15.0	1.3	19.8	13.2	7.3
2006	11.5	12.9	21.1	12.0	3.5	17.2	9.9	12.8	0.2	10.7	-1.1	-0.9
<b>Current Shipments</b>												
1999	17.3	14.1	12.7	12.0	16.5	10.5	15.7	16.2	8.7	25.0	31.8	14.8
2000	16.3	20.8	21.6	15.0	12.8	4.8	14.9	14.6	14.0	-8.6	18.9	3.4
2001	-30.4	-32.2	-4.7	-2.9	-1.5	-6.1	-16.2	-12.8	-7.9	-11.0	-15.1	-8.8
2002	10.2	10.2	6.6	12.7	15.9	15.5	7.0	0.8	9.6	0.4	5.8	-1.4
2003	16.5	-0.9	2.4	-5.8	2.0	2.8	9.3	17.0	16.4	27.0	27.8	32.7
2004	30.9	19.2	25.6	27.2	26.5	31.3	39.8	30.3	27.2	25.5	19.9	23.4
2005	17.4	22.2	15.5	28.6	18.8	9.9	12.0	14.3	16.2	19.0	21.5	5.0
2006	19.5	23.5	23.2	17.7	14.0	18.3	10.7	20.3	-4.4	6.1	7.8	14.0
<b>Current Unfilled Orders</b>												
1999	-4.2	-5.8	-3.0	-1.0	-5.5	-8.3	-4.9	3.5	-2.2	0.3	0.1	-1.0
2000	-1.1	4.4	2.6	-0.1	-4.3	-12.5	-10.8	2.9	-16.6	-2.2	0.2	-14.9
2001	-23.5	-15.0	-19.7	-19.2	-16.8	-12.9	-16.4	-20.8	-12.2	-12.7	-13.0	-15.6
2002	-7.8	-7.3	-2.4	1.3	-11.1	8.0	-6.1	-10.4	-6.7	-16.9	-4.6	-4.6
2003	-4.1	-6.3	-8.5	-15.3	-8.9	2.1	2.4	5.0	7.8	12.1	8.6	11.8
2004	11.0	7.2	8.6	0.8	10.5	12.9	18.2	1.3	4.6	-1.7	-2.0	3.0
2005	-4.4	-1.8	-3.3	-3.8	-3.6	-16.0	-8.1	3.9	-8.6	-2.9	-8.2	0.8
2006	0.3	10.0	4.0	5.6	-2.8	-0.7	-6.5	-2.0	-3.8	-10.5	-5.5	-18.6

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Current Delivery Times</b>												
1999	8.7	-3.2	-6.4	-0.3	-5.6	-1.3	-4.1	-1.7	-5.2	-6.3	-0.6	-8.0
2000	-3.2	-0.8	-1.1	-0.1	7.0	-11.3	-6.3	-10.2	-15.0	-5.9	-9.8	-12.1
2001	-18.0	-10.7	-24.2	-17.8	-12.6	-13.6	-13.9	-26.9	-13.0	-14.8	-9.7	-11.3
2002	-11.3	2.4	-4.5	-6.8	-8.9	-1.2	-10.6	-4.9	-1.8	-9.7	-8.4	-2.8
2003	-5.9	-16.1	-10.1	-6.8	-9.8	-7.2	-4.3	-0.4	-2.7	4.9	-0.5	2.3
2004	-0.5	4.1	15.9	-0.1	8.9	7.3	15.4	-6.7	4.4	2.5	-5.3	2.0
2005	-2.5	3.5	1.3	4.1	0.0	-10.8	-1.3	-0.2	-0.7	0.0	5.7	1.5
2006	7.8	6.6	2.5	-2.9	9.0	0.2	-1.3	1.4	0.0	-4.8	1.8	-4.9
<b>Current Inventories</b>												
1999	-17.1	-9.5	-10.4	-1.0	-16.0	-12.3	-10.0	-6.9	-2.3	-9.9	8.3	2.9
2000	5.1	-5.9	2.8	5.7	5.4	-2.1	-1.8	-12.4	-1.4	6.1	-4.1	-10.2
2001	-9.5	-3.1	-24.1	-19.0	-11.2	-19.4	-18.3	-23.2	-26.1	-19.0	-13.3	-13.3
2002	-14.5	-10.3	-7.7	-13.8	-17.2	-10.1	-14.1	4.1	-9.7	-4.3	-3.6	14.7
2003	-13.8	-10.6	-8.1	-5.9	-8.1	4.2	4.2	2.3	0.4	-5.4	-9.5	-3.8
2004	-2.5	3.6	-8.6	6.9	6.3	14.7	4.8	1.4	0.9	1.5	-1.3	-4.0
2005	-3.6	-5.2	-2.4	0.0	-0.9	-0.8	-8.7	-8.0	-0.9	-2.0	3.8	3.9
2006	6.6	9.3	11.6	-9.7	-5.3	-3.5	0.5	6.8	4.7	10.9	5.3	-0.9
<b>Current Prices Paid</b>												
1999	-7.5	-6.8	0.8	2.2	2.6	9.0	14.9	12.3	11.3	27.6	27.1	26.1
2000	25.0	38.5	30.1	30.4	29.0	27.4	27.4	27.7	24.0	26.4	23.2	17.7
2001	15.1	12.1	11.2	4.1	-0.8	14.5	-2.3	-10.5	-14.0	-16.4	-14.1	-9.5
2002	-4.3	-5.7	-1.0	3.4	15.8	21.1	22.6	22.4	18.6	19.7	17.2	17.0
2003	11.9	16.4	21.0	20.0	7.5	7.9	0.3	16.6	20.0	23.3	25.6	30.2
2004	31.6	43.6	53.2	49.6	56.4	55.3	53.2	56.3	54.7	56.7	52.9	50.8
2005	59.9	45.0	33.9	49.1	31.0	28.3	30.4	28.1	50.5	25.6	53.9	45.8
2006	40.2	32.3	22.5	30.4	53.9	49.3	49.5	46.6	37.8	32.7	25.2	19.0
<b>Current Prices Received</b>												
1999	-14.5	-6.4	-8.9	-8.0	-7.3	-10.6	-3.7	2.5	2.4	5.5	10.7	3.5
2000	8.7	8.8	7.5	16.1	5.9	5.4	7.3	1.5	-0.6	3.6	1.0	-1.3
2001	-3.7	-2.8	-5.4	-9.6	-5.1	-8.2	-10.4	-11.8	-13.2	-11.9	-11.9	-12.8
2002	-6.5	-4.9	-0.7	-0.1	3.6	7.8	2.5	1.9	3.3	-4.4	-4.7	3.4
2003	6.1	1.2	-5.8	6.8	-1.5	-6.6	-5.9	0.9	2.4	5.9	5.6	6.0
2004	10.2	17.8	21.0	13.2	27.9	30.9	35.0	33.6	33.3	32.3	29.5	19.5
2005	24.2	23.6	18.1	26.6	16.5	12.4	13.1	3.1	6.6	12.7	31.8	28.1
2006	20.3	18.0	15.7	15.1	11.3	16.0	17.6	17.3	20.0	17.2	7.4	8.9
<b>Current Employment</b>												
1999	2.2	-0.5	-1.2	2.4	3.4	1.8	1.2	3.8	8.5	9.4	16.6	15.8
2000	12.3	14.8	13.5	12.7	7.4	3.3	7.2	14.3	6.8	2.1	-4.3	-9.8
2001	-21.0	-8.6	-9.2	-13.7	-14.0	-13.9	-9.9	-11.3	-17.3	-25.1	-21.3	-20.3
2002	-8.8	-15.5	-6.6	-4.9	2.4	-1.8	-9.3	-9.7	-3.0	-3.4	-0.2	-4.3
2003	-5.6	-3.0	-8.6	-12.9	-11.6	-10.3	-2.2	-4.2	-1.7	5.6	2.2	18.0
2004	16.5	12.0	13.9	9.9	22.8	19.0	22.6	20.4	24.1	14.7	14.8	12.3
2005	17.7	11.4	12.2	12.3	8.7	8.5	2.4	7.0	3.9	15.9	18.4	7.5
2006	11.8	10.5	7.0	16.3	2.9	8.2	11.7	8.1	10.3	10.4	3.0	7.5
<b>Future General Activity</b>												
1999	26.2	25.4	22.1	22.4	24.6	12.5	9.8	20.0	-6.3	10.8	21.0	27.0
2000	22.1	20.2	7.9	4.1	6.6	8.4	15.9	12.7	20.8	11.4	5.7	-3.2
2001	-9.6	8.7	21.7	30.7	32.9	50.1	34.3	36.8	44.0	47.4	42.0	46.4
2002	59.0	55.0	57.4	54.0	54.4	53.5	50.3	39.8	42.1	49.2	44.2	48.9
2003	39.6	27.5	47.9	48.8	48.0	52.4	58.5	58.4	63.7	55.2	55.3	47.9
2004	56.3	52.2	40.5	37.2	44.7	41.5	38.4	45.5	47.0	28.8	45.4	33.0
2005	28.2	25.4	33.8	27.4	24.2	32.6	16.1	27.2	11.2	20.7	25.3	32.3
2006	29.5	28.5	18.7	26.1	22.2	9.6	15.2	6.9	2.5	16.9	9.1	5.4