



BUSINESS OUTLOOK SURVEY

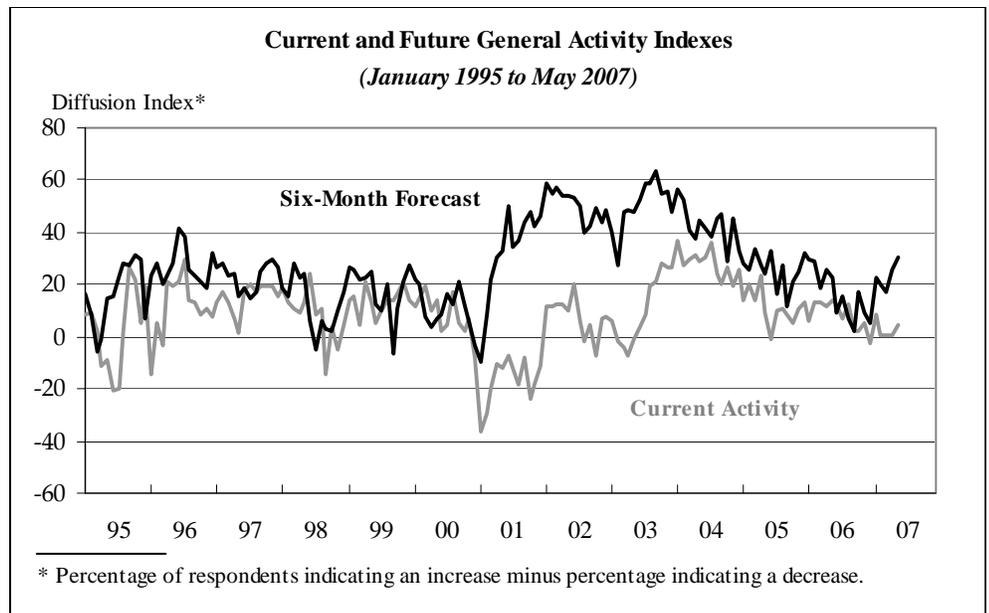
May 2007

Activity in the region's manufacturing sector improved slightly in May, according to firms polled for this month's *Business Outlook Survey*. Indicators for general activity, new orders, shipments, and employment all improved from their readings in April. Firms continued to report higher input costs, but prices received for their own products remained steady. The region's manufacturing executives were slightly more optimistic about future activity, with most future indicators increasing from their readings in April.

Indicators Move Higher

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from 0.2 in April to 4.2 this month, its highest reading since January (see Chart). Forty-one percent of the firms indicated no change in activity from April, but the percentage of firms reporting increases (30 percent) exceeded the percentage reporting decreases (26 percent). Demand for manufactured goods, as represented by the survey's new orders index, showed improvement this month. The new orders index rose six points, to its highest reading since October. The current shipments index increased five points. Indexes for delivery times and unfilled orders, although remaining negative, improved from their April readings.

Evidence of improved manufacturing conditions is also seen in replies concerning employment this month. While 56 percent of the firms reported steady employment levels in May, the percentage of firms reporting increases (28 percent) was higher than the percentage reporting decreases (16 percent). The current employment index, at 12.9, is 10 points higher than in April. The average workweek index suggests fewer



hours worked this month: The index dropped 11 points, descending into negative territory.

Cost Pressures Remain, But Prices for Finished Goods Are Near Steady

Respondents reported higher costs for inputs again this month. The prices paid index increased eight points and has now increased for four consecutive months. Forty percent of the firms reported higher input prices, up slightly from 37 percent in April. Eight percent reported lower input prices in May, down from 13 percent in April.

On balance, the firms reported nearly steady prices for their own manufactured goods this month. The percentage of firms reporting increased prices (16 percent) was nearly offset by the percentage reporting lower prices (13 percent). The prices received index fell three points, to 2.2, its lowest reading since August 2003.

Six-Month Forecasts Improve Again

The outlook for manufacturing growth over the next six months showed further improvement this month. The future general activity index increased from a reading of 25.8 to 30.8, its second consecutive month of increase and its highest reading since December 2005 (see Chart). The indexes for future new orders and shipments also increased, by six points and one point, respectively. Firms were also more optimistic this month about future increases in employment. Thirty-six percent expect employment increases, up from 27 percent last month. The future employment index increased six points, reaching its highest level since January.

In special questions this month, firms were asked about how they would characterize the current demand for their products compared to the beginning of the year (see Special Questions). Although the largest percentage (42 percent) indicated that demand was about as expected, firms indicat-

ing that demand was greater than expected (about 32 percent) outnumbered those indicating it was less than expected (27 percent). At the extremes, however, 5 percent said demand was significantly greater than expected, and 11 percent said it was significantly less than expected. Firms were also asked about any change in capital spending plans since January. Half of the firms indicated that there had been no change in plans. Twenty-eight percent indicated that capital spending plans had increased, while 22 percent said plans had been decreased, delayed, or postponed since January.

In general, firms that have increased their expected spending were those indicating current demand is greater than or the same as expected at the beginning of the year. Those with lowered spending plans were the firms indicating that current demand is less than expected.

Summary

Indicators for general activity, new orders, shipments, and employment all showed some improvement this month, following several months of nearly flat activity. Cost pressures continue to be reported by a significant share of the firms,

but only slightly more firms reported higher prices for their own manufactured goods than reported price decreases. Firms

expect improvement in manufacturing business over the next six months, and expectations are higher than in April.

Special Questions (May 2007)

1. How would you characterize the current demand for your product(s) compared to what was expected at the beginning of the year?

| | | |
|---|--------|--------|
| Significantly greater than expected | 4.9% | |
| Somewhat greater than expected | 26.8% | |
| subtotal | | 31.7% |
| About what was expected | 41.5% | 41.5% |
| Somewhat less than what was expected | 15.8% | |
| Significantly less than what was expected | 11.0% | |
| subtotal | | 26.8% |
| Total | 100.0% | 100.0% |

2. To what extent have you changed your planned spending on capital since January? % of firms that indicated current demand:

| | Total | > expected < expected about same* | | |
|---------------------------------|--------|-----------------------------------|------------|-------------|
| | | > expected | < expected | about same* |
| Increased significantly | 22.0 | 12.2 | 0.0 | 9.8 |
| Increased somewhat | 6.1 | 3.7 | 1.2 | 1.2 |
| No change | 50.0 | 14.6 | 11.0 | 24.4 |
| Decreased somewhat | 9.8 | 1.2 | 3.7 | 4.9 |
| Decreased significantly | 3.6 | 0.0 | 2.4 | 1.2 |
| Delayed until later in the year | 6.1 | 0.0 | 6.1 | 0.0 |
| Postponed indefinitely | 2.4 | 0.0 | 2.4 | 0.0 |
| Total | 100.0% | 31.7% | 26.8% | 41.5% |

* Last three columns are breakdowns of question 2 based on answers to question 1 above.

| BUSINESS OUTLOOK SURVEY (May 2007) | 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? | 0.2 | 30.1 | 40.9 | 25.9 | 4.2 | 25.8 | 41.0 | 36.3 | 10.2 | 30.8 |
| Company Business Indicators | | | | | | | | | | |
| New Orders | 2.8 | 30.7 | 44.1 | 22.1 | 8.7 | 23.5 | 44.4 | 30.0 | 14.3 | 30.1 |
| Shipments | 4.3 | 31.1 | 45.6 | 21.9 | 9.3 | 24.8 | 44.2 | 31.0 | 18.3 | 25.9 |
| Unfilled Orders | -13.7 | 17.5 | 51.6 | 26.6 | -9.1 | -3.2 | 26.4 | 44.0 | 21.7 | 4.8 |
| Delivery Times | -11.9 | 9.4 | 72.6 | 17.5 | -8.2 | -6.7 | 17.0 | 58.1 | 20.6 | -3.6 |
| Inventories | -3.1 | 17.9 | 54.1 | 24.8 | -6.9 | -0.6 | 18.2 | 46.7 | 26.4 | -8.2 |
| Prices Paid | 24.3 | 39.8 | 52.6 | 7.5 | 32.3 | 32.3 | 48.0 | 42.7 | 6.0 | 42.0 |
| Prices Received | 5.2 | 15.6 | 68.9 | 13.4 | 2.2 | 20.4 | 36.8 | 47.9 | 8.6 | 28.1 |
| Number of Employees | 2.5 | 28.4 | 56.1 | 15.5 | 12.9 | 11.7 | 35.5 | 42.4 | 18.1 | 17.4 |
| Average Employee Workweek | 5.5 | 13.8 | 64.8 | 19.3 | -5.5 | 6.0 | 27.2 | 56.9 | 10.4 | 16.7 |
| Capital Expenditures | -- | -- | -- | -- | -- | 12.3 | 26.5 | 46.2 | 13.2 | 13.3 |

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, 2007.