



BUSINESS OUTLOOK SURVEY

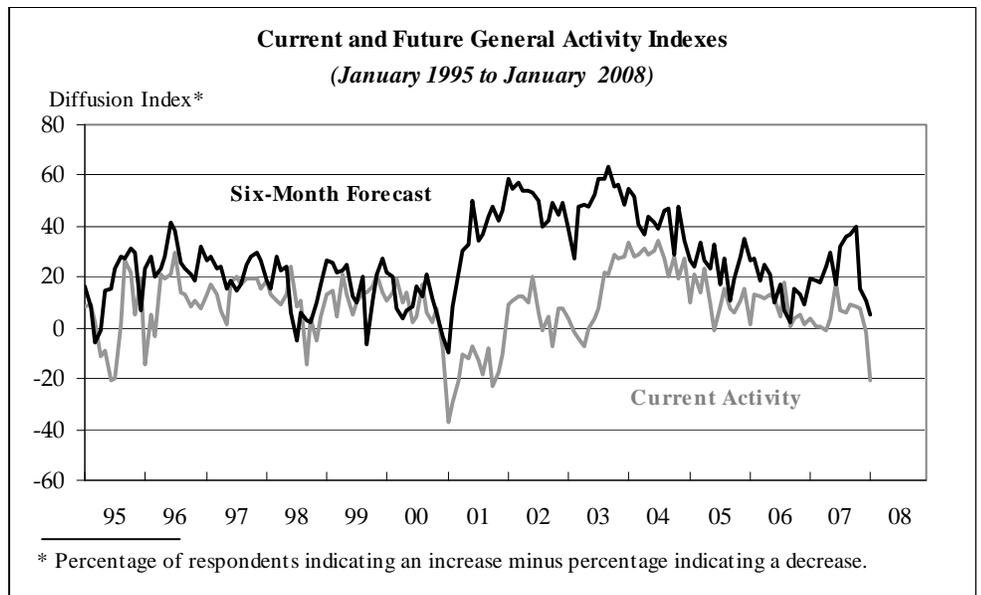
January 2008

Activity in the region's manufacturing sector weakened this month, according to firms surveyed for the January *Business Outlook Survey*. The general activity and new orders indexes fell sharply this month, and indexes for shipments and employment also turned negative. A significant share of firms reported a rise in prices for inputs and for their own manufactured goods. Also this month, the region's manufacturing executives were less optimistic about future activity, and most future indicators have fallen considerably over the past three months.

Indicators Suggest Weakening

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, fell sharply from a revised reading of -1.6 in December to -20.9, its lowest reading since October 2001 (see Chart).^{*} Forty percent of the firms reported no change in activity from December, but the percentage of firms reporting decreases (41 percent) was substantially greater than the percentage reporting increases (20 percent). Other broad indicators also suggested declines this month. Demand for manufactured goods, as represented by the survey's new orders index, fell dramatically, from a revised reading of 12.0 in December to -15.2, its first negative reading in 15 months. The current shipments index fell 17 points, from 15.0 to -2.3. Indexes for both unfilled orders and delivery times remained negative.

Weakness was also evident in replies about employment and hours worked. The percentage of firms reporting a de-



crease in employment (22 percent) was slightly greater than the percentage reporting an increase (21 percent), and the current employment index declined four points, to its first negative reading since September 2003. Weakness was most evident in average hours worked this month: 31 percent reported declines in average hours worked, 15 percent reported increases, and the average workweek index fell from 7.4 in December to -16.1.

Firms Report Higher Prices

A sizable share of firms reported higher prices for inputs this month. One-half of manufacturers reported higher input prices this month, and the prices paid index jumped from 36.5 in December to 49.8 in January, its highest reading since May 2006. Price increases for the manufacturers' own products were more widespread. Thirty-six percent of the firms reported increased prices for their

own goods, and the prices received index increased from a revised 15.2 in December to 32.0 this month, its highest reading since October 2004.

Six-Month Outlook Weakens Further

The outlook for manufacturing growth over the next six months was less optimistic than in December. The future general activity index declined from a revised reading of 11.1 in December to 5.2 this month. The index has declined 34 points over the past three months (see Chart). The percentage of firms expecting growth in activity over the next six months (32 percent) is only slightly higher than the

^{*}The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on Thursday, January 10, 2008. Revisions for selected series from 2000 to 2007 are listed on pages 3-4 of this release. The full set of revised historical data is available at: philadelphiafed.org/econ/bos/historicalrevisions2008.html.

percentage expecting decreases (27 percent). The indexes for future new orders edged down two points, while the future shipments index increased three points. Firms' expectations for future employment, however, were virtually unchanged: The future employment index increased one point, and nearly 39 percent of the firms still expect to increase employment over the next six months.

In this month's special questions, firms were asked to appraise the current demand for their manufactured products relative to expectations (see Special Questions on page 3). When asked to characterize the underlying demand for their products over the past three months, the percentage of firms indicating that demand had increased (42 percent) was higher than the percentage that said it had decreased (37 percent). The composition of the responses, however, suggests a slightly different perspective, because 11 percent indicated that demand had declined significantly, while only 1 percent indicated that demand had

increased significantly. However, when asked to appraise the state of **current** demand compared with what was expected three months ago, the percentage of firms that said underlying demand was less than expected (27 percent) was slightly higher than the percentage that said it was greater than expected (20 percent). Firms were also asked to state their expectations about the timing of a turnaround in demand, if they had experienced recent declines. Only half of the firms responded to this question, and slightly more than one-half of those responding indicated that they expect recovery in their business to take longer than six months. The remaining firms that responded to this question expect a recovery time of four to five months (20 percent); two to three months (13 percent); and one month (15 percent).

Summary

The region's manufacturing sector weakened in January, as evidenced by negative readings of the indexes for

activity, new orders, shipments, employment, and average hours worked. Price pressures were also elevated this month; more firms reported increases in input prices and price increases for their own manufactured goods. Firms' expectations for future activity have deteriorated sharply over the past three months. On the positive side, more firms expect growth over the next six months than expect declines, and nearly 39 percent of firms expect to increase hiring over the first half of the year.

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The February release of the *Business Outlook Survey* will be Thursday, February 21, at 10 a.m. ET.

BUSINESS OUTLOOK SURVEY January 2008	January vs. December					Six Months from Now vs. January				
	<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?	-1.6	19.7	39.7	40.6	-20.9	11.1	31.7	41.1	26.5	5.2
Company Business Indicators										
New Orders	12.0	23.6	37.7	38.8	-15.2	11.6	36.0	35.7	26.5	9.5
Shipments	15.0	26.1	41.3	28.4	-2.3	10.2	39.2	33.3	25.5	13.6
Unfilled Orders	-4.4	16.5	60.1	22.7	-6.2	-10.6	13.8	57.6	25.9	-12.1
Delivery Times	-2.3	16.0	64.1	19.1	-3.1	-12.8	14.0	63.7	22.2	-8.2
Inventories	-6.5	15.0	57.2	26.8	-11.7	-4.1	18.8	49.5	26.4	-7.7
Prices Paid	36.5	50.0	49.8	0.2	49.8	43.1	65.4	27.1	4.8	60.6
Prices Received	15.2	36.1	58.6	4.1	32.0	25.9	45.9	43.3	8.7	37.2
Number of Employees	3.8	20.6	55.6	22.1	-1.5	17.4	38.7	41.4	19.9	18.8
Average Employee Workweek	7.4	15.2	50.7	31.4	-16.1	2.8	21.9	50.5	23.1	-1.2
Capital Expenditures	--	--	--	--	--	22.3	37.3	35.3	18.3	19.0

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 15, 2008.

Special Questions (January 2008)

1. Over the past three months, how would you characterize the underlying demand for your manufactured products?

	Percent
Increasing	41.8
Increasing significantly	1.3
Increasing moderately	40.5
No change	20.2
Decreasing	36.7
Decreasing moderately	25.3
Decreasing significantly	11.4
No response	1.3

2. How does the current underlying demand for your products compare to what you expected three months ago?

	Percent
Greater than expected	20.2
About what was expected	51.9
Less than expected	26.6
No response	1.3

3. If you have experienced recent declines in demand, when do you expect to see a turnaround?

	Percent
More than 6 months	52.5
4-5 Months	20.0
2-3 Months	12.5
One Month	15.0
Total	100.0

Business Outlook Survey Selected Revised Diffusion Indexes (2000 - 2007)

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current General Activity												
2000	10.8	14.3	19.6	10.1	13.9	2.4	4.8	17.2	5.7	2.1	7.3	-7.8
2001	-37.2	-29.6	-20.4	-10.7	-11.8	-7.2	-12.5	-18	-7.9	-23.2	-17.5	-10.7
2002	9.5	11	12	12.3	10.2	20.3	6	-0.8	4.8	-7.1	7.5	8
2003	3.6	-1.6	-4.3	-7.3	-0.5	3.7	7.7	21.6	21.3	28.9	27.1	27.7
2004	33.5	28	29	31.1	29.1	30.7	34.6	27.4	20	28	19.7	27.5
2005	9.7	20.8	13.8	23.3	9.2	-1.1	8.2	15.2	7.6	6	10.7	15.3
2006	1.7	13.5	12.7	11.2	13.5	11.9	4.3	17.9	0.6	3.5	5	1.4
2007	3.6	0.3	0.2	-0.8	4.1	17.7	6.9	5.7	9.2	8.4	7.5	-1.6
Current New Orders												
2000	4.4	9.7	16.9	15.6	14.1	7.5	7.8	14.3	14	3.8	2.5	3.7
2001	-29	-19.6	-6	-7.8	-6.2	-7.6	-5.5	-17.1	-0.2	-10.8	-18.4	-6.3
2002	8.2	7.8	8.5	12	12.1	21.9	6.8	3	5	2.3	10.3	6.8
2003	10.4	9.1	-0.6	-9.1	1.4	4.4	11	17.2	20.1	26.7	22.8	33.6
2004	32.9	27.2	25.8	25.1	22.8	28.8	35.3	19.4	26.8	20.6	21.9	20.8
2005	10.5	13.6	15	18.9	15.8	5.1	5.9	15.1	-0.7	20.6	14.5	8
2006	12.1	14.6	20.8	11.3	2.2	17.7	8.4	12.4	-2.3	12	0.4	0
2007	2.4	1.6	1.6	1.6	7.1	18.9	10	6.3	12.8	3.9	5.2	12
Current Shipments												
2000	16.1	20.8	21.6	15.1	12.8	4.7	14.9	14.5	14	-8.6	19.1	3.4
2001	-30.8	-32.1	-4.8	-2.7	-1.6	-6.1	-16.2	-12.8	-7.9	-11	-14.8	-8.8
2002	9.7	10.2	6.6	13.1	15.9	15.5	6.9	0.8	9.7	0.4	6.1	-1.7
2003	15.9	-0.9	2.3	-5.4	2	2.9	9.3	17.1	16.3	27.3	28.2	32.2
2004	30	19.4	25.6	27.9	26.5	31.9	39.3	30.6	26.6	26.4	20.6	21.9
2005	16.2	22.4	15.6	29.3	19	11	10.9	14.6	14.8	20.7	22.8	2.8
2006	18	23.8	23.2	18.4	14.1	20.1	9.2	20.6	-6.1	8.6	9.5	11.1
2007	22.6	2	6.9	4.8	9.7	7.3	18.8	12.6	14.8	-1.2	6.3	15
Current Unfilled Orders												
2000	-1	4.5	2.6	-0.1	-4.4	-12.6	-10.7	2.9	-16.5	-2.2	0.2	-14.8
2001	-23.3	-14.9	-19.7	-19.2	-17	-13	-16.5	-20.5	-12.1	-12.8	-13	-15.5
2002	-7.7	-7.2	-2.4	1.2	-11.3	7.6	-6.5	-9.6	-6.7	-16.9	-4.6	-4.5
2003	-4	-6.3	-8.2	-15.4	-9.3	1.6	1.8	6.5	7.6	12	8.5	11.9
2004	11.3	6.8	9.6	0.7	10	11.9	17.1	3.4	4.1	-1.4	-2.1	3
2005	-4.1	-2.8	-1.6	-3.7	-4.3	-17.4	-9.8	6.5	-9.4	-2	-8.2	0.7
2006	0.9	8.4	6.4	5.5	-3.5	-2.2	-8.5	0.5	-4.8	-9.2	-5.3	-18.6
2007	-14.4	-12.3	-18.7	-14.1	-10.1	-2.2	1.4	0.3	-1.9	-6.5	-9.4	-4.4

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current Delivery Times												
2000	-3.2	-0.8	-1.1	0	7	-11.4	-6.2	-10.3	-15	-5.9	-9.8	-12.1
2001	-18	-10.7	-24.2	-17.7	-12.7	-13.7	-13.7	-27	-13	-14.8	-9.6	-11.3
2002	-11.3	2.3	-4.5	-6.5	-8.9	-1.3	-10.5	-5	-1.9	-9.9	-8.2	-2.9
2003	-5.8	-16.3	-10	-6.3	-9.8	-7.3	-4.2	-0.5	-2.9	4.7	-0.3	2
2004	-0.5	3.8	16	0.9	9.1	7.2	15.3	-6.9	4.3	2	-5	1.3
2005	-2.3	2.9	1.5	5.7	0.3	-10.9	-1.6	-0.5	-0.6	-0.6	6.1	0.4
2006	7.9	5.6	2.8	-0.9	9.7	0.1	-1.8	0.9	0.5	-5.5	2.1	-6
2007	-7	-7.9	-12.9	-9.7	-7.5	-3.4	-1.5	-2.7	-5.6	0.5	-12	-2.3
Current Inventories												
2000	5	-5.9	2.7	5.7	5.5	-2.1	-1.8	-12.2	-1.5	6.1	-4.3	-10.2
2001	-9.6	-3.1	-24.1	-19	-11.2	-19.3	-18.2	-22.9	-26.2	-19	-13.7	-13.3
2002	-14.7	-10.3	-7.8	-13.7	-17.1	-9.9	-14.1	4.6	-9.8	-4.4	-4	14.7
2003	-14.1	-10.6	-8.1	-5.9	-7.8	4.5	4.2	3	0	-5.5	-10.2	-3.9
2004	-3	3.5	-8.5	6.9	7	15.2	4.9	2.6	-0.1	1.5	-2.8	-4
2005	-4.3	-5.3	-2.1	0	0.4	-0.2	-8.5	-6.3	-2.5	-1.9	1.6	4
2006	5.6	9.2	11.8	-9.6	-3.5	-2.6	0.9	9	2.4	11	2.7	-0.7
2007	-0.8	-1.8	-3.5	-3.1	-5.3	-7.3	1.8	-2.2	1.5	-15.1	-0.4	-6.5
Current Prices Paid												
2000	24.9	38.6	30.5	30.5	29	27.3	27.3	27.6	23.9	26.2	23	17.6
2001	15	12.1	12.3	4.1	-0.8	14.4	-2.5	-10.7	-14.2	-16.7	-14.3	-9.7
2002	-4.1	-5.8	0.8	3.3	15.7	20.9	22.3	22.1	18.3	18.9	16.5	17
2003	12.8	16.7	23.7	19.8	7.1	7.6	-0.4	15.9	19.5	22	24.5	30.5
2004	33.8	44.4	56.8	49.5	55.9	54.2	52	55.8	54.5	54.3	51.1	51.6
2005	62.1	46.1	38.2	49.3	29.4	26.7	28.8	27.7	50.5	22.1	51.6	46.8
2006	43.2	34	27.6	30.9	52.5	47.2	47.6	46.5	38.4	28.3	22.2	20.3
2007	15.6	18.8	27.6	25.4	29.6	27.4	25.8	16	23.8	35.5	34.4	36.5
Current Prices Received												
2000	8.7	8.8	7.5	16.2	5.9	5.4	7.2	1.5	-0.6	3.6	1	-1.3
2001	-3.6	-2.8	-5.4	-9.4	-5.1	-8.2	-10.5	-11.8	-13.2	-12	-11.9	-12.9
2002	-6.6	-4.9	-0.7	0.2	3.6	7.9	2.4	1.9	3.2	-4.5	-4.8	3.2
2003	6.1	1.1	-5.7	7.3	-1.3	-6.5	-6	0.8	2.2	6	5.5	5.5
2004	9.9	17.7	21	13.8	28.8	31.2	34.8	33.6	32.9	32.6	29	18.7
2005	23.7	23.4	17.9	27.4	18.1	12.8	12.7	3.3	5.9	13.2	31.1	27.4
2006	19.4	17.5	15.7	16	13.6	16.7	17.1	17.7	18.8	17.8	6.1	7.6
2007	10.5	8.9	16.6	6.2	5	6.1	8	7.4	2.1	13.1	17.2	15.2
Current Employment												
2000	12.2	14.8	13.5	12.7	7.4	3.3	7.2	14.3	6.8	2.1	-4.2	-9.8
2001	-21.3	-8.6	-9.2	-13.5	-14.1	-13.9	-9.8	-11.3	-17.3	-25	-21.2	-20
2002	-9.6	-15.4	-6.5	-4.5	2.2	-1.9	-9.2	-9.7	-3	-3.4	0.1	-4
2003	-6.7	-2.8	-8.5	-12.3	-12	-10.3	-2.3	-4.3	-1.7	5.4	2.4	18.6
2004	15	12.5	14.2	10.7	22.2	19	22.8	20.1	24	14	15.1	13.7
2005	15.8	12.3	12.7	13.1	7.4	8.6	3	6.3	4	14.8	18.8	9.6
2006	9.6	11.9	7.7	16.7	1.1	8.5	12.8	7.1	10.3	8.7	3.2	10.3
2007	5.6	1.2	3.3	2.3	11	5.9	5.6	20.1	7.7	10.6	4.9	3.8
Future General Activity												
2000	22.1	20.1	7.9	4.1	6.6	8.4	15.9	12.7	20.8	11.4	5.9	-3.2
2001	-9.7	8.6	21.7	30.8	32.9	50.1	34.3	36.8	43.8	47.5	42.2	46.5
2002	58.7	54.7	57.4	54.2	54.3	53.4	50.5	39.9	41.9	49.3	44.7	49
2003	39.1	27.2	47.8	48.9	47.7	52.2	58.9	58.7	63.3	55.4	56.3	48.5
2004	55.2	51.6	40.4	37	44.1	41.4	39.2	45.8	46.7	28.5	47.4	34.6
2005	26.2	24.3	33.9	26.9	23.2	32.6	17.4	27.3	10.9	19.7	28.3	35
2006	26.7	27.2	18.8	24.8	20.9	9.8	16.8	6.8	2.5	15.3	12.9	8.9
2007	19.2	18.9	17.6	24	29.3	16.9	32.2	35.9	36.6	39.6	15.5	11.1

Revised historical data prior to 2000 and revisions to other series are available on the Bank's website at:
<http://www.philadelphiafed.org/econ/bos/boshistory.html>.