



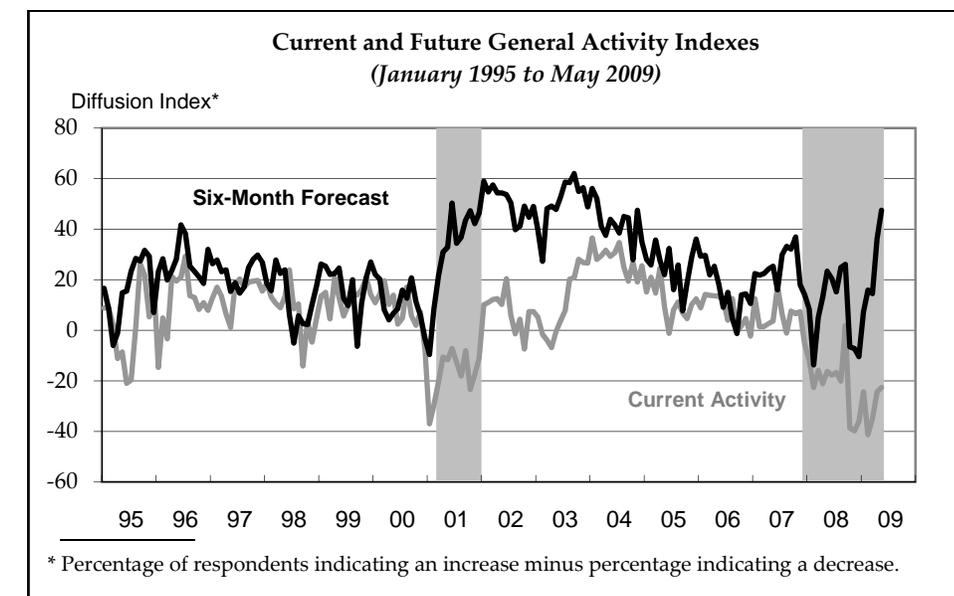
BUSINESS OUTLOOK SURVEY

May 2009

The region's manufacturing sector continued to show weakness in May, according to firms polled for this month's *Business Outlook Survey*. Although the indexes for general activity, shipments, and employment improved, the index for new orders declined slightly. Firms reported decreases in input prices and prices for their own manufactured goods; however, the corresponding price indexes rebounded slightly from their record lows last month. Most of the survey's broad indicators of future activity improved notably again this month, suggesting that the region's manufacturing executives are more optimistic that a recovery will occur over the next six months.

Most Current Indicators Less Negative This Month

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from -24.4 in April to -22.6 this month. Although an indication of continued overall decline, this reading is the index's highest since last September; it has now edged higher for three consecutive months. Still, the index has been negative for 17 of the past 18 months, a span that corresponds to the current recession (see Chart). The new orders index remained negative this month and was the only broad indicator that did not show improvement (it declined two points). The survey's shipments index, however, rose 17 points, increasing from its record low reading of -35.7 in April to -19.0. The survey's current inventory index improved for the second consecutive month, increasing 12 points (the index is now 27 points above its record low reading in March). The survey's delivery times and



unfilled orders indexes were little changed from last month, suggesting continued weakness.

Responses this month suggest that employment losses have moderated from April. The current employment index, although still negative, increased 18 points. Still, 35 percent of firms reported declines in employment this month; only 8 percent reported increases. The average workweek index also improved this month, increasing 18 points, to -23.2.

Price Indexes Reflect Weakness

Firms continued to report widespread declines in the prices paid for inputs and the prices received for their own manufactured goods, although corresponding price indexes rebounded somewhat from the record lows reached in April. Twenty-four percent of the firms reported paying lower prices for inputs, down from 36 percent last month. Only 1 percent reported paying higher prices this month. Over 36 percent of the firms

reported receiving lower prices for their own manufactured goods; 3 percent reported receiving higher prices. The prices received index remained negative for the seventh consecutive month, although rebounding eight points from its record low of -41.4 in April.

Six-Month Indicators Show Continued Improvement

Broad indicators of future activity showed improvement again this month. The future general activity index remained positive for the fifth consecutive month and increased 11 points, from 36.2 in April to 47.5. The index has now increased 33 points in the past two months (see Chart). The indexes for future new orders and shipments also improved, increasing 13 and 14 points, respectively. For

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the first time in eight months, the percentage of firms expecting employment to increase over the next six months exceeded the percentage expecting declines (26 percent versus 16 percent). The future employment index jumped 22 points, to its highest reading since last September. The six-month capital expenditure index showed a modest four-point improvement, increasing for the second consecutive month; at -0.2 the index is 22 points higher than its record low in March.

In special questions this month, firms were asked to characterize the underlying demand for their manufactured goods over the past two months (see Special Questions). The percentage of firms experiencing decreases in demand over that period (56 percent) was significantly greater than that of firms experiencing an increase in demand (24 percent). Among those firms experiencing current declines, however, 32 percent indicated that the rate of decline had moderated; 17 percent said declines had grown more severe. When asked when they expect an increase in demand for their products, the largest percentage of executives (45 percent) indicated that

the increases are six months or more in the future. Twenty percent said increases will occur in four to five months; 14 percent said in two to three months.

Summary

According to respondents to the May survey, activity in the region's manufacturing sector continued to decline this month. But evidence that declines are moderating was again present. While the broad indicators remained negative, most have improved from April. Responses to special questions offered corroboration that declines have been moderating for a significant proportion of firms. Most broad indicators for future business conditions improved markedly again this month, suggesting that an increasing number of the region's manufacturing executives expect a recovery in business activity before the end of the year.

Special Questions (May 2009)	
1. Over the past two months, how would you characterize the underlying demand for your manufactured products?*	
Increasing significantly	2.4%
Increasing modestly	22.0%
No change	19.5%
Decreasing modestly	31.7%
Decreasing significantly	24.4%
2. If you are currently experiencing declines in demand, how would you characterize the declines?	
Declines have moderated.	31.8%
Declines have continued at a steady pace.	15.3%
Declines have been more severe.	16.6%
NR	36.5%
3. When do you expect to see an increase in demand at your company?*	
One month	2.4%
2-3 months	14.1%
4-5 months	20.0%
6 months or more	44.7%
NR	18.8%
*Firms were asked to exclude normal seasonal variation.	

BUSINESS OUTLOOK SURVEY May 2009	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?	-24.4	13.7	49.3	36.2	-22.6	36.2	53.8	33.7	6.3	47.5
Company Business Indicators										
New Orders	-24.3	14.1	43.5	40.0	-25.9	33.1	56.9	29.1	10.3	46.5
Shipments	-35.7	22.7	35.6	41.7	-19.0	32.0	53.3	31.0	7.6	45.7
Unfilled Orders	-19.5	14.3	52.0	32.7	-18.4	9.3	25.3	55.8	8.6	16.7
Delivery Times	-17.1	3.7	74.5	21.8	-18.1	6.8	5.8	76.5	11.5	-5.7
Inventories	-40.2	14.8	41.8	43.4	-28.6	-31.2	21.0	41.3	34.4	-13.4
Prices Paid	-31.5	0.8	75.1	23.6	-22.8	5.9	30.0	58.7	10.9	19.1
Prices Received	-41.4	2.6	58.6	36.4	-33.8	-3.7	18.8	57.0	20.4	-1.6
Number of Employees	-44.9	7.7	57.8	34.5	-26.8	-12.0	25.5	52.7	15.5	10.0
Average Employee Workweek	-41.2	12.8	49.8	36.0	-23.2	7.9	28.1	53.6	14.5	13.6
Capital Expenditures	--	--	--	--	--	-4.0	24.3	45.9	24.5	-0.2

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 19, 2009.