



BUSINESS OUTLOOK SURVEY

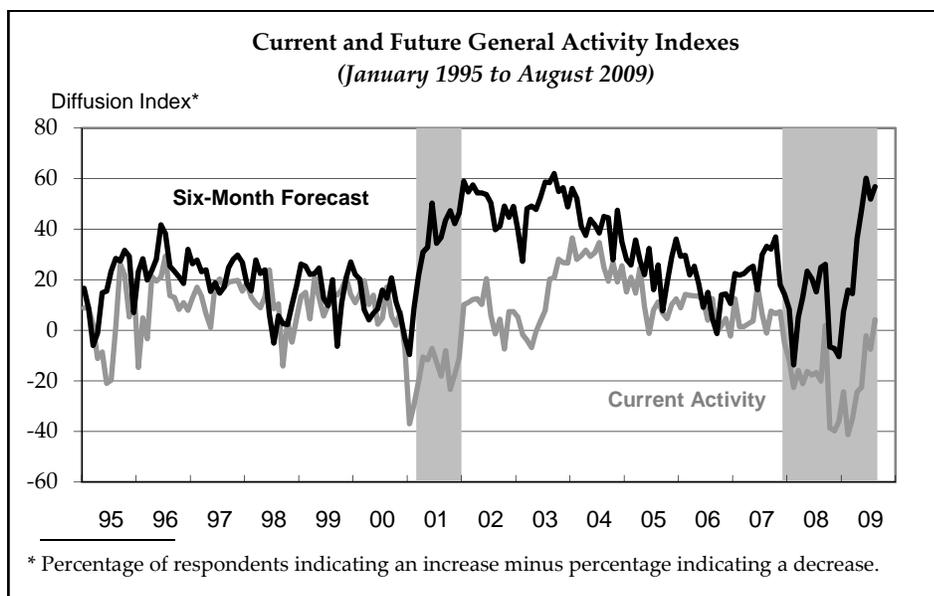
August 2009

The region's manufacturing sector is showing some signs of stabilizing, according to firms polled for this month's *Business Outlook Survey*. Indexes for general activity, new orders, and shipments all registered slightly positive readings this month. Although firms reported continued declines in employment and work hours this month, losses were not as widespread. Most of the survey's broad indicators of future activity continued to suggest that the region's manufacturing executives expect business activity to increase over the next six months.

Current Indicators Suggest Improvement

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from -7.5 in July to 4.2 this month. This is the highest reading of the index since November 2007 (see Chart). The percentage of firms reporting increases in activity (27 percent) was slightly higher than the percentage reporting decreases (23 percent). Other broad indicators also suggested improvement. The current new orders index edged six points higher, from -2.2 to 4.2, also its highest reading since November 2007. The current shipments index increased 10 points, to a slightly positive reading.

Labor market conditions remain weak. Firms continue to report declines in employment and work hours, but overall job losses were not as large this month. The current employment index increased from a weak reading of -25.3 to -12.9, its highest level in 11 months. Twenty-three percent of firms reported declines in employment this month, down from 30 percent in the previous month. Although the workweek index remained negative, the index increased nine points, to -6.3.



Price Indexes Rise, But Output Prices Remain Steady

For the first time in 10 months, more firms reported higher input prices than reported lower prices. The prices paid index rose 14 points, to a reading of 10.0, its first positive reading since last October. The same manufacturers, however, reported near-steady prices for their own final goods. Nearly 75 percent of the firms reported steady prices this month, while 13 percent reported price decreases and 12 percent reported increases. The prices received index increased 20 points, from -21.5 to -1.5, its highest reading since last October.

Outlook Remains Optimistic

Indicators of future activity improved slightly this month and continued to suggest that firms are expecting better conditions over the next six months. The future general activity index remained positive for the eighth consecutive month and increased from 51.9 in July to 56.8 (see Chart). Indexes for future new orders and shipments also edged slightly higher this

month. For the fourth consecutive month, the percentage of firms expecting employment to increase over the next six months exceeded the percentage expecting declines (29 percent versus 16 percent). Firms' forecast for future capital spending remains subdued: The future capital spending index is at zero this month, very near its readings of the previous four months.

In special questions this month firms were asked about their current inventory expectations (see Special Questions). A little over 44 percent of firms indicated that their current inventories are about right for prevailing conditions. Nearly 34 percent expect declines over the next three months, while only 19 percent expect to increase inventories. About 15 percent of the firms indicated that their inventories had been reduced in the current downturn and that a rebuilding would occur in the third quarter. Only 4 percent indicated that a rebuilding would occur in the fourth

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quarter, but the largest percentage (27 percent) indicated that it would not occur until next year. Firms were also asked to characterize their likely inventory plans when demand picks up. The percentage of firms that think inventories will grow more slowly than in previous recoveries (34 percent) was higher than the percentage of firms (1 percent) that think inventories will grow faster. Over 23 percent think inventories will grow similar to previous recessions, while the largest percentage (40 percent) think inventories will remain at current levels.

Summary

According to respondents to the August *Business Outlook Survey*, manufacturing conditions improved slightly this month. For the first time since November 2007, all of the survey's broad indicators were positive. Although employment continued to decline among the reporting firms, losses were less widespread this month. Future indicators suggest that firms continue to expect conditions to improve over the next six months.

Special Questions (August 2009)		
1) Choose the statement that best characterizes your current inventory situation.		
Inventories are:	Aug. 2009	Feb. 2009
About right for current economic conditions.	44.2%	43.9%
Expected to increase in the next 3 months.	18.6%	9.8%
Expected to decrease in the next 3 months.	33.7%	43.9%
2) If your inventories have been reduced during the current business downturn, when do you expect to start rebuilding?		
	Aug. 2009	
The current third quarter	15.1%	
Fourth quarter	3.5%	
Next year	26.7%	
Reductions are expected to be permanent	18.6%	
N/A (Inventories have not been reduced)	25.6%	
3) When the economy and demand begin to pick up, how would you characterize your firm's likely inventory plans?		
	Aug. 2009	
Inventories will grow similar to previous recovery periods.	23.3%	
Inventories will grow at a faster pace than in previous recovery periods.	1.2%	
Inventories will grow much slower than in previous recovery periods.	33.7%	
Inventory levels will remain at their current levels.	39.5%	
Note: Percentages may not add to 100% because of no responses for some questions.		

BUSINESS OUTLOOK SURVEY August 2009	August vs. July					Six Months from Now vs. August				
	<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?	-7.5	26.7	50.7	22.5	4.2	51.9	61.0	30.9	4.2	56.8
Company Business Indicators										
New Orders	-2.2	28.8	46.6	24.6	4.2	46.4	54.3	35.8	7.8	46.5
Shipments	-9.5	26.0	48.6	25.4	0.6	45.4	55.9	35.0	8.6	47.3
Unfilled Orders	-14.6	9.0	69.8	18.4	-9.3	12.9	24.7	66.3	9.0	15.6
Delivery Times	-10.3	2.8	87.4	9.8	-7.0	5.3	13.6	78.4	6.5	7.2
Inventories	-15.4	21.6	57.1	21.3	0.3	-2.4	23.2	56.0	18.9	4.3
Prices Paid	-3.5	21.9	66.2	11.9	10.0	23.0	30.9	62.0	7.0	23.9
Prices Received	-21.5	11.6	74.6	13.1	-1.5	11.2	21.2	71.3	7.6	13.6
Number of Employees	-25.3	10.5	62.9	23.4	-12.9	13.0	28.8	52.4	15.9	12.9
Average Employee Workweek	-15.5	14.0	65.5	20.4	-6.3	18.1	32.6	53.0	8.6	24.0
Capital Expenditures	--	--	--	--	--	2.4	17.8	56.1	17.9	0.0

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 August 18, 2009.