



BUSINESS OUTLOOK SURVEY

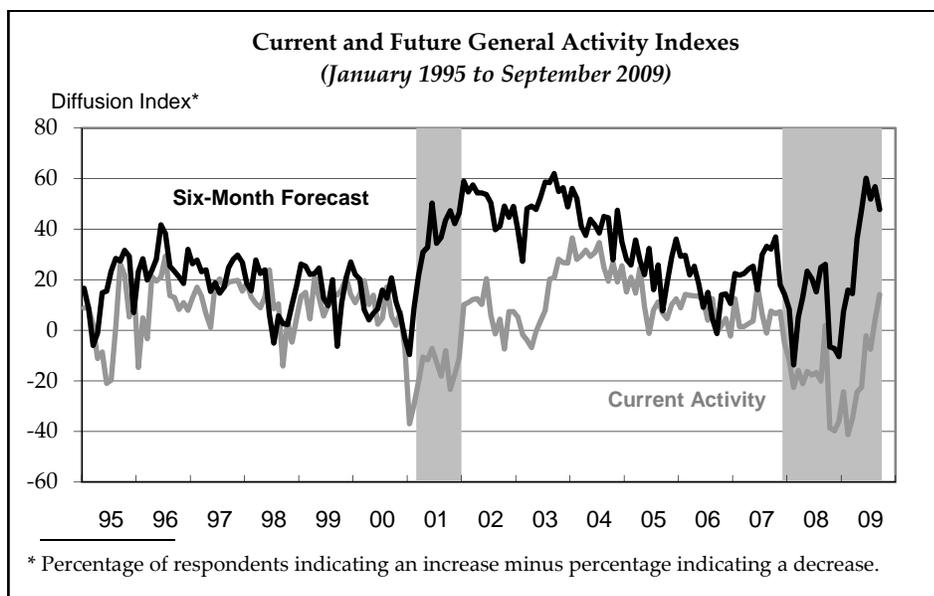
September 2009

The region's manufacturing sector is showing signs of growth, according to firms polled for this month's *Business Outlook Survey*. Indexes for general activity, new orders, and shipments all registered positive readings for the second consecutive month. Indexes for employment, work hours, and the prices received for manufactured goods remained negative, suggesting continued weakness. 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 Modest Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from 4.2 in August to 14.1 this month. This is the highest reading since June 2007 and the second consecutive positive reading (see Chart). The percentage of firms reporting increases in activity (33 percent) exceeded the percentage reporting decreases (19 percent). Other broad indicators also suggested some growth this month. The current new orders index also remained positive for the second consecutive month, although it edged one point lower, to 3.3. The current shipments index increased eight points and has now increased 18 points over the last two months. Firms reported declines in inventories this month: The current inventory index declined 18 points, from 0.3 in August to -18.1. Indicators for unfilled orders and delivery times remained negative, suggesting continued weakness.

Labor market conditions remain weak, despite signs of improvement in overall activity. The current employment index decreased slightly, from -12.9 to -14.3. Overall declines,



however, are still not as widespread as in the first six months of this year. Twenty-four percent of firms reported declines in employment this month; only 10 percent reported employment increases. Although the workweek index remained negative, the index edged two points higher, to -3.9.

Prices of Manufactured Goods Decline

Although more firms have reported higher prices for purchased inputs over the past few months, firms reported overall declines in prices of their manufactured goods this month. The prices paid index increased five points and follows a rise of 14 points last month; the reading of 14.9 for the prices paid index is the highest level since last September. The same manufacturers, however, reported declines in prices for their own final goods. While 17 percent reported price decreases, 6 percent reported increases; nearly 76 percent of the firms reported steady prices this month. The prices received index decreased nine points, to -10.6.

Manufacturers Are Still Optimistic

Indicators of future activity remained near levels not seen since 2004 (see Chart). The future general activity index remained positive for the ninth consecutive month but decreased from 56.8 in August to 47.8. Indexes for future new orders and shipments edged higher this month. The future shipments index increased eight points, and the future new orders index increased four points. For the fifth consecutive month, the percentage of firms expecting employment to increase over the next six months exceeded the percentage expecting declines (34 percent versus 14 percent). Firms' forecast for capital spending suggests that capital spending will be flat over the next six months: The future capital spending index, at 0.8, has remained very near zero for five months.

In this month's special questions, manufacturers were asked about their total production growth for the third quarter (ending in Septem-

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ber) and expectations for the fourth quarter (see Special Questions). Twice as many firms expect overall growth in production in the third quarter (48 percent) than expect a decline (24 percent). The average growth was about 1.3 percent for the responding firms. For the upcoming fourth quarter, more firms expect an acceleration in production growth (40 percent) than expect a deceleration (28 percent). However, few firms (only 1 percent) expect significant acceleration in growth in the fourth quarter; most firms characterized the expected acceleration in growth to be some (21percent) or slight (17 percent).

Summary

According to respondents to the September *Business Outlook Survey*, manufacturing conditions are improving. For the second consecutive month, the survey's indicators for general activity, new orders, and shipments were positive, suggesting business growth. Employment continued to decline among the reporting firms, however. Firms expect conditions to improve over the next six months, and they expect modest growth in the third and fourth quarters of this year.

Special Questions (September 2009)		
1. How do you expect your firm's total production for the third quarter to compare with that of the second quarter?*		
	%	Subtotals
Increase of more than 10%	11.1	48.1
Increase of 8-10%	6.2	
Increase of 6-8%	6.2	
Increase of 4-6%	4.9	
Increase of 2-4%	7.4	
Increase of less than 2%	12.3	23.5
Decreases of less than 2%	3.7	
Decreases of 1-2%	2.5	
Decreases of 2-4%	3.7	
Decreases of 4-6%	2.5	
Decreases of 6-10%	3.7	
Decreases of more than 10%	7.4	
No change	25.9	25.9
Average	1.3%	
2. For the upcoming fourth quarter, what growth do you expect for production at your plant compared to the third quarter?		
Significant acceleration	1.2	39.5
Some acceleration	21.0	
Slight acceleration	17.3	
Slight deceleration	11.1	28.3
Some deceleration	12.3	
Significant deceleration	4.9	
No change	29.6	29.6
*Percentages may not add to 100 because a small percentage of firms did not respond to the special questions.		

BUSINESS OUTLOOK SURVEY September 2009	September vs. August					Six Months from Now vs. September				
	<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?	4.2	32.8	46.7	18.8	14.1	56.8	59.8	28.2	12.0	47.8
Company Business Indicators										
New Orders	4.2	27.0	48.8	23.7	3.3	46.5	58.9	27.5	8.8	50.2
Shipments	0.6	32.7	42.7	24.5	8.2	47.3	57.8	28.5	2.9	54.9
Unfilled Orders	-9.3	14.3	63.3	21.7	-7.4	15.6	29.1	55.6	4.6	24.5
Delivery Times	-7.0	5.3	78.8	14.2	-8.9	7.2	12.0	81.1	2.6	9.4
Inventories	0.3	13.4	54.7	31.5	-18.1	4.3	16.2	64.6	17.4	-1.2
Prices Paid	10.0	24.0	64.0	9.1	14.9	23.9	44.2	50.4	3.5	40.7
Prices Received	-1.5	6.1	75.9	16.7	-10.6	13.6	22.9	61.5	13.2	9.7
Number of Employees	-12.9	9.8	63.8	24.1	-14.3	12.9	34.0	50.2	13.5	20.5
Average Employee Workweek	-6.3	19.2	57.6	23.1	-3.9	24.0	35.0	57.7	6.9	28.2
Capital Expenditures	--	--	--	--	--	0.0	21.2	51.3	20.4	0.8

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 September 15, 2009.