



BUSINESS OUTLOOK SURVEY

December 2009

Activity in the region's manufacturing sector is expanding, according to firms polled for this month's *Business Outlook Survey*. Indexes for general activity, new orders, and shipments all remained positive this month. Indicative of improvement, the overall level of employment and average work hours among reporting firms increased this month. Overall, expectations moderated somewhat in December, although the forecast for employment improved slightly.

Indicators Suggest Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from 16.7 in November to 20.4 this month. The index has now remained positive for five consecutive months (see Chart). Other broad indicators suggest continued growth this month, but they fell somewhat from their November readings. The current new orders index, which has also remained positive for five consecutive months, decreased 8 points. The current shipments index fell less than 1 point. The current inventory index, although still negative, increased 10 points, to its highest reading in four months. Indicators for unfilled orders and delivery times edged higher and reached their highest readings since well before the recession began at the end of 2007.

Labor market conditions have been stabilizing in recent months, and for the first time since late 2007, more firms reported an increase in employment than reported declines. The current employment index increased 7 points, to its highest reading since October 2007. The workweek index edged four points higher, to 6.4, its second consecutive positive reading.

Cost Increases Reported But Prices of Manufactured Goods Are Near Steady

Respondents reported higher costs for inputs this month. The prices paid index showed a notable increase of 19 points from last month. The percentage of firms reporting higher prices paid increased from 24 percent in November to 39 percent this month. On balance, however, firms reported near-steady prices for their own manufactured goods. The percentage of firms reporting lower prices (14 percent) was slightly greater than the percentage reporting higher prices (12 percent).

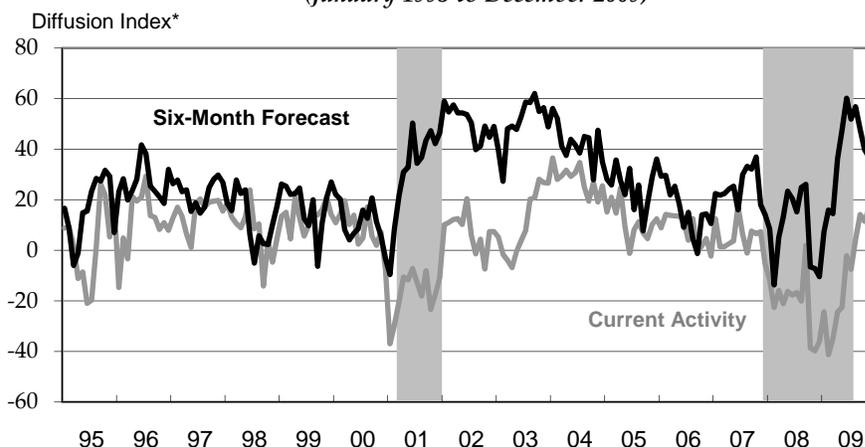
Manufacturers' Forecasts Moderate

The future general activity index remained positive for the 12th consecutive month but decreased notably from 36.8 in November to 24.4, its lowest reading since March (see Chart). The future activity index has been trending downward since mid-year. Indexes for future new orders and shipments declined this month, falling 15 points and 7 points, respec-

tively. For the eighth consecutive month, the percentage of firms expecting employment to increase over the next six months exceeded the percentage expecting declines (28 percent versus 14 percent) and the future employment index edged 6 points higher.

In this month's special questions, firms were asked about their expectations for changes in various categories of input and labor costs for the coming year (see Special Questions). Similar to responses in previous years, the largest annual increase is expected to be for health benefits (8.6 percent). In contrast, other labor costs (wages and non-health-care costs) are expected to rise only 1.3 and 1.6 percent, respectively. Regarding nonlabor costs, all expense categories

Current and Future General Activity Indexes
(January 1995 to December 2009)



* Percentage of respondents indicating an increase minus percentage indicating a decrease.

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The survey's annual historical revisions, which incorporate new seasonal adjustment factors, will be released on Thursday, January 14, 2010, at 10 a.m. ET.

are expected to increase in 2010: energy (7.9 percent), raw materials (2.9 percent), and intermediate goods (1.6 percent). Firms were also asked how the expected cost increases will compare to 2009 costs. In every category the percentage of firms indicating that their costs would be higher in 2010 was greater than the percentage reporting that their costs would be lower.

Summary

According to respondents to the December *Business Outlook Survey*, manufacturing activity is continuing to expand in the region. The survey's indicators for general activity and employment improved this month, while indicators for new orders and shipments remained positive but moderated from the previous month. Firms still expect continued improvement over the next six months, although some future indicators suggest that, overall, optimism is on the wane.

Special Questions (December 2009)						
1. What percentage change in costs do you expect for the following categories in 2010?						
	Energy	Other Raw Materials	Intermediate Goods	Wages	Health Benefits	Nonhealth Benefits
Increase 15% or more	17.4	1.4	0	0	17.4	1.4
Increase of 12.5-15%	10.1	1.4	0	0	10.1	0
Increase of 10-12.5%	8.7	2.9	0	0	7.2	0
Increase of 7.5-10%	8.7	5.8	0	1.4	21.7	0
Increase of 5-7.5%	8.7	8.7	8.7	0	14.5	4.3
Increase of 2.5-5%	17.4	20.3	17.4	18.8	8.9	21.7
Increase of < 2.5%	10.1	24.6	24.6	37.7	2.9	17.4
Stay at current levels	10.1	18.8	39.1	33.3	7.2	44.9
Decline of < 2.5%	0	5.8	1.4	0	0	0
Decline of 2.5-5%	1.4	2.9	0	1.4	1.4	1.4
Decline of 5-10%	0	0	0	0	1.4	0
Decline of 10% or more	0	0	0	0	0	0
Avg. Expected Change	7.9	2.9	1.6	1.3	8.6	1.6
<i>Previous estimates for:</i>						
2009 Avg.	-0.4	-3.0	-0.8	1.6	6.0	1.2
2008 Avg.	4.9	3.8	2.8	3.1	7.2	2.4
2007 Avg.	4.5	4.1	2.5	3.4	8.1	3.6
2006 Avg.	8.4	5.6	4.2	2.7	9.6	3.1
2. How do these expected costs compare with those in 2009?						
Higher	76.8	47.8	33.3	20.3	58.0	17.4
Same	13.0	29.0	50.7	56.5	23.2	68.1
Lower	2.9	14.5	7.2	14.5	10.1	5.8
* Percentages may not add to 100 percent because some reporters did not respond to the questions.						

BUSINESS OUTLOOK SURVEY December 2009	December vs. November					Six Months from Now vs. December				
	<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?	16.7	37.8	44.2	17.4	20.4	36.8	40.8	33.4	16.4	24.4
Company Business Indicators										
New Orders	14.8	30.5	45.1	24.0	6.5	35.7	40.6	32.2	20.0	20.6
Shipments	15.7	29.0	53.9	13.7	15.3	29.2	39.6	37.7	16.9	22.7
Unfilled Orders	-5.4	14.8	68.1	14.8	0.0	2.1	23.7	50.5	19.6	4.2
Delivery Times	-12.7	13.5	75.0	7.3	6.2	-7.9	8.5	65.2	17.2	-8.7
Inventories	-17.3	12.6	64.2	20.0	-7.4	5.9	20.1	51.5	23.9	-3.8
Prices Paid	14.9	38.7	56.4	4.9	33.8	30.8	32.9	54.8	4.6	28.2
Prices Received	-1.5	12.0	74.2	13.8	-1.8	1.2	27.0	56.7	9.4	17.6
Number of Employees	-0.5	14.3	77.3	8.0	6.3	8.3	27.5	50.7	13.7	13.8
Average Employee Workweek	2.0	19.6	62.8	13.2	6.4	9.9	29.5	48.8	15.7	13.8
Capital Expenditures	--	--	--	--	--	13.8	18.5	61.8	6.4	12.1

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 December 15, 2009.