



BUSINESS OUTLOOK SURVEY

January 2010

The region's manufacturing sector continues to show improvement, according to firms polled for this month's *Business Outlook Survey*. Indexes for general activity, new orders, and shipments all remained positive this month, although each fell back somewhat from their revised readings in December. Also indicative of improvement, for the second consecutive month, the percentage of firms reporting increases in employment was higher than the percentage reporting declines. Overall, expectations improved in January, and firms remain generally optimistic about growth over the next six months.

Indicators Suggest Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from a revised reading of 22.5 in December to 15.2 this month.* The index has now remained positive for five consecutive months (see Chart). Indicators for new orders and shipments suggest continued growth this month, but they also declined somewhat from their December readings. The current new orders index, which has remained positive for six consecutive months, decreased 5 points. The current shipments index fell 4 points. The current inventory index, although still negative, increased 4 points, to its highest reading in 26 months. Indicators for unfilled orders and delivery times edged higher and are both positive, suggesting stronger economic conditions.

Labor market conditions have been stabilizing in recent months, and for the second consecutive month, the percentage of firms reporting an increase in employment was higher than the percentage reporting declines. The current employment index increased 2 points, to its highest reading since February 2008. The workweek

index fell back 2 points but has now been positive for three consecutive months.

Most Firms Report Steady Prices, Despite Higher Costs

Respondents have been reporting higher costs for inputs in recent months. The prices paid index, which showed a notable increase of 14 points last month, fell back 3 points. But over one-third of firms reported higher prices paid, while less than 1 percent reported lower prices paid. On balance, however, firms reported near-steady prices for their own manufactured goods. The largest percentage, 85 percent, reported no change in the prices of their manufactured goods. The percentage of firms reporting higher prices (9 percent) was nearly offset by the percentage reporting lower prices (6 percent).

Manufacturers' Forecasts Improve

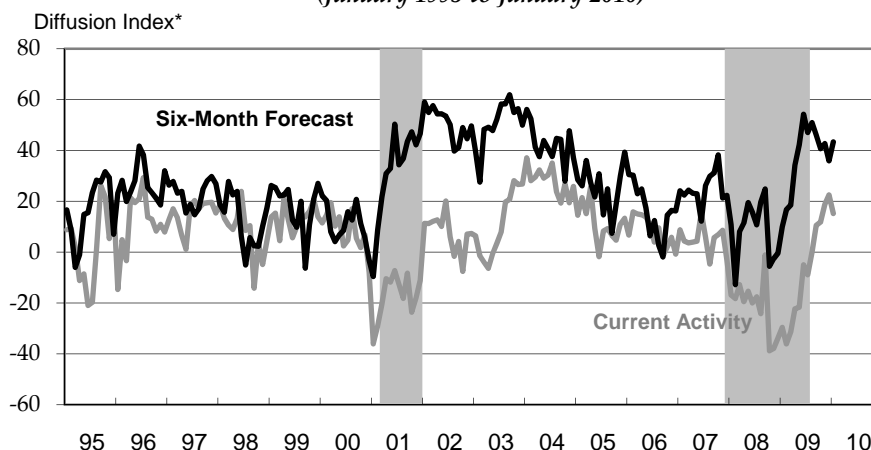
The future general activity index remained positive for the 13th consecutive month and increased notably from a revised reading of 35.9 in December to 43.3 (see Chart). Indexes for fu-

ture new orders and shipments also improved this month, increasing 12 points and 6 points, respectively. For the ninth consecutive month, the percentage of firms expecting employment to increase over the next six months (28 percent) exceeded the percentage expecting declines (14 percent). Firms also forecast increases in inventories, unfilled orders, and delivery times.

In this month's special questions, firms were asked to characterize demand for their products over the past three months (see Special Questions). The improvement in manufacturing was evident in their responses, since the percentage of firms indicating an increase in demand was higher than the percentage indicating a decrease. Nearly 35 percent of firms indicated that

* The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on January 14, 2010. Revisions for selected series from 2005 to 2009 are listed on pages 3-4 of this release. The full set of revised historical data is available at: <http://philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/historical-data/revisions/historical-revisions-2010.cfm>.

Current and Future General Activity Indexes
(January 1995 to January 2010)



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

demand had increased modestly over the last three months, and 7 percent indicated significant increases in demand. Only 15 percent indicated modest declines, while 7 percent reported significant decreases. When asked to compare current demand with what was expected three months ago, 26 percent of firms indicated that demand is greater than expected; 17 percent indicated it is less than expected. Firms were nearly evenly divided in their responses to a question about whether their forecast for the first half was more certain or less certain than six months ago.

Summary

According to respondents to the January *Business Outlook Survey*, manufacturing activity is still rising, even though some measures fell back somewhat from their readings at year-end. Special questions corroborated reported improvement in demand for manufactured goods in recent months. Firms expect continued growth over the first half of 2010, and most indicators for future growth showed improvement this month.

Special Questions (January 2010)

1. Over the past three months how would you characterize the underlying demand for your manufactured products? Exclude any purely seasonal effect.

Increase significantly	7.4%
Increase modestly	34.6%
No change	33.3%
Decrease modestly	14.8%
Decrease significantly	7.4%

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

Less than expected	17.3%
About what was expected	55.6%
Greater than expected	25.9%

3. How would you characterize the level of certainty regarding your forecast for business growth over the next six months?

Less certain than six months ago	23.5%
No difference from six months ago	43.2%
More certain than six months ago	24.7%

Percentages may not add to 100 percent because some firms did not respond to every question.

BUSINESS OUTLOOK SURVEY January 2010	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?	22.5	28.7	56.7	13.5	15.2	35.9	50.0	41.4	6.7	43.3
Company Business Indicators										
New Orders	8.3	28.3	46.6	25.1	3.2	32.8	51.8	38.7	7.2	44.6
Shipments	14.9	28.3	53.1	17.3	11.0	33.7	47.8	43.2	8.0	39.8
Unfilled Orders	1.7	15.1	73.5	11.4	3.6	9.8	28.1	61.3	10.6	17.4
Delivery Times	4.1	13.3	79.9	6.8	6.6	-3.2	16.9	75.6	7.5	9.4
Inventories	-5.7	17.3	63.9	18.8	-1.6	-0.5	27.7	54.5	17.5	10.2
Prices Paid	36.6	33.5	66.2	0.3	33.2	34.4	50.9	44.1	3.9	47.0
Prices Received	1.4	8.9	85.0	6.2	2.7	19.1	26.4	61.2	11.0	15.4
Number of Employees	4.5	18.8	68.5	12.7	6.1	15.1	27.9	56.3	13.5	14.4
Average Employee Workweek	6.3	18.9	65.9	14.7	4.2	22.5	33.5	52.7	11.1	22.4
Capital Expenditures	--	--	--	--	--	13.2	24.5	60.7	7.7	16.8

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 January 19, 2010.

(2005 - 2009)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current General Activity												
2005	14.5	21.4	15.1	25.5	9.4	-1.8	8.3	9.2	6.6	4.7	11.0	13.3
2006	6.7	15.8	15.0	14.7	13.8	10.6	3.9	9.5	-1.6	2.0	5.8	-0.8
2007	8.8	4.4	3.6	3.9	4.3	15.6	6.0	-4.7	5.7	6.9	8.6	-3.2
2008	-16.9	-18.3	-12.8	-19.5	-15.4	-20.0	-17.6	-24.2	-1.1	-38.8	-37.9	-33.8
2009	-29.6	-36.1	-31.4	-22.3	-21.7	-5.0	-8.9	0.0	10.5	11.8	18.8	22.5
Current New Orders												
2005	11.1	14.1	16.0	20.1	16.4	4.1	5.5	13.6	-1.8	20.1	14.6	7.5
2006	13.0	16.0	22.6	13.7	2.7	15.9	7.3	9.6	-3.8	11.4	0.5	-0.5
2007	3.2	4.1	4.4	5.7	7.7	15.9	7.8	2.1	10.6	3.6	5.6	11.6
2008	-14.0	-7.4	-5.5	-13.6	-3.2	-16.4	-15.1	-17.2	2.9	-30.3	-31.0	-26.1
2009	-23.8	-28.1	-37.5	-21.8	-23.2	-8.8	-5.2	2.1	1.9	7.1	13.1	8.3
Current Shipments												
2005	16.2	23.4	16.6	30.4	18.7	10.9	11.1	13.4	12.3	21.2	22.0	3.0
2006	17.8	26.3	25.0	20.9	13.4	19.6	9.6	18.2	-10.7	9.8	7.9	11.1
2007	21.9	6.6	9.3	8.9	8.7	6.3	19.1	8.9	8.2	1.0	4.8	15.2
2008	-3.7	-5.9	-3.2	-2.5	0.9	-7.6	-8.0	-8.2	-5.9	-15.4	-20.6	-29.9
2009	-19.1	-27.4	-23.9	-31.4	-18.7	0.2	-12.1	-2.0	2.9	6.2	14.5	14.9
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current Unfilled Orders												
2005	-3.9	-2.5	0.2	-2.8	-3.9	-16.4	-10.7	2.2	-10.7	-2.3	-7.4	1.4
2006	1.4	9.3	9.0	6.4	-3.1	-0.8	-9.5	-5.4	-7.4	-9.6	-4.2	-17.1
2007	-13.9	-10.9	-15.0	-13.3	-9.6	-0.5	0.3	-7.0	-6.3	-6.8	-8.1	-2.0
2008	-5.3	-9.2	-14.2	-16.4	-18.5	-10.5	-19.6	-17.0	-15.7	-27.8	-27.3	-29.3
2009	-29.9	-30.2	-21.8	-19.3	-18.9	-18.9	-16.8	-11.7	-9.7	-2.4	-4.3	1.7
Current Delivery Times												
2005	-2.3	4.4	2.9	4.0	0.0	-10.6	-2.1	-1.2	-1.9	-0.6	7.0	0.3
2006	7.9	7.7	5.5	-3.0	9.0	0.8	-2.6	-0.7	-1.8	-5.2	3.4	-6.4
2007	-7.2	-4.9	-9.0	-11.8	-8.4	-2.6	-2.8	-5.1	-9.1	1.2	-10.4	-3.3
2008	-3.4	-4.1	-4.9	2.3	-13.7	-7.0	-12.6	-13.2	-9.1	-19.4	-18.2	-24.4
2009	-25.6	-27.3	-28.0	-16.9	-19.1	-18.5	-12.5	-9.9	-10.4	-9.5	-9.4	4.1
Current Inventories												
2005	-3.8	-4.6	-1.2	3.2	0.4	0.2	-9.5	-8.8	-2.9	-2.8	1.2	2.1
2006	6.7	10.2	13.3	-4.4	-3.3	-2.4	-1.3	4.8	1.7	10.1	2.1	-2.7
2007	0.7	-1.0	-1.5	5.0	-4.5	-7.3	-2.0	-8.5	0.5	-16.2	-1.0	-8.2
2008	-9.6	-12.3	-10.9	-16.1	-11.6	-12.8	-12.7	-14.2	-24.5	-23.1	-20.1	-32.5
2009	-32.5	-25.2	-52.4	-33.9	-27.8	-18.0	-19.8	-4.7	-19.0	-31.9	-17.4	-5.7
Current Prices Paid												
2005	63.0	48.0	36.0	51.0	29.1	24.7	26.6	25.5	49.9	23.2	54.0	49.5
2006	44.7	36.9	26.7	33.3	51.9	43.1	43.0	41.8	37.0	29.8	27.1	24.4
2007	17.4	21.9	28.0	29.4	28.3	20.5	18.8	7.9	22.0	37.2	42.4	42.0
2008	53.4	50.6	55.9	55.5	51.8	60.2	66.9	47.5	29.5	8.6	-20.4	-24.1
2009	-21.7	-12.2	-28.8	-29.2	-23.8	-17.4	-8.7	3.7	12.1	19.6	22.6	36.6

(2005 - 2009)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current Prices Received												
2005	23.7	23.4	18.6	27.6	17.9	12.3	11.6	1.7	5.0	12.7	32.6	29.1
2006	19.5	18.2	17.1	16.2	13.7	15.6	15.4	14.7	17.7	16.9	8.2	11.0
2007	10.4	10.2	18.7	6.5	5.7	4.3	5.7	2.8	0.2	11.6	19.9	19.7
2008	31.9	26.1	23.9	31.8	33.0	27.5	26.0	21.2	13.3	3.4	-13.0	-30.4
2009	-24.8	-24.9	-31.2	-39.5	-31.2	-18.7	-23.8	-5.9	-12.5	-6.1	-3.1	1.4
Current Employment												
2005	17.2	12.6	13.5	17.1	7.2	8.3	2.5	4.2	1.7	13.4	18.6	7.9
2006	11.8	13.1	9.8	22.0	0.8	7.3	12.3	3.3	7.6	6.6	2.7	8.4
2007	8.5	3.6	6.9	9.2	10.1	3.9	4.9	14.4	4.2	7.8	4.5	1.7
2008	2.0	6.2	0.3	-3.4	-2.2	-9.6	-7.7	-8.4	-4.4	-21.6	-25.6	-30.8
2009	-36.7	-41.1	-49.8	-38.3	-29.8	-24.1	-25.9	-17.6	-15.7	-9.5	-2.2	4.5
Current Average Workweek												
2005	6.8	7.8	9.5	15.2	0.3	4.1	6.0	0.2	-0.4	-2.4	12.6	5.5
2006	6.7	9.0	9.2	8.1	11.3	8.4	-1.1	9.9	0.6	-2.1	2.3	-2.2
2007	1.1	-10.4	-1.7	6.4	-3.7	0.0	1.9	10.1	5.0	3.4	1.4	7.2
2008	-14.9	-0.9	-6.6	-7.5	-4.7	-7.8	-11.9	-16.3	-13.3	-20.7	-23.2	-31.7
2009	-30.4	-42.3	-29.7	-36.1	-22.3	-25.3	-16.8	-10.2	-7.6	-5.7	0.3	6.3