



BUSINESS OUTLOOK SURVEY

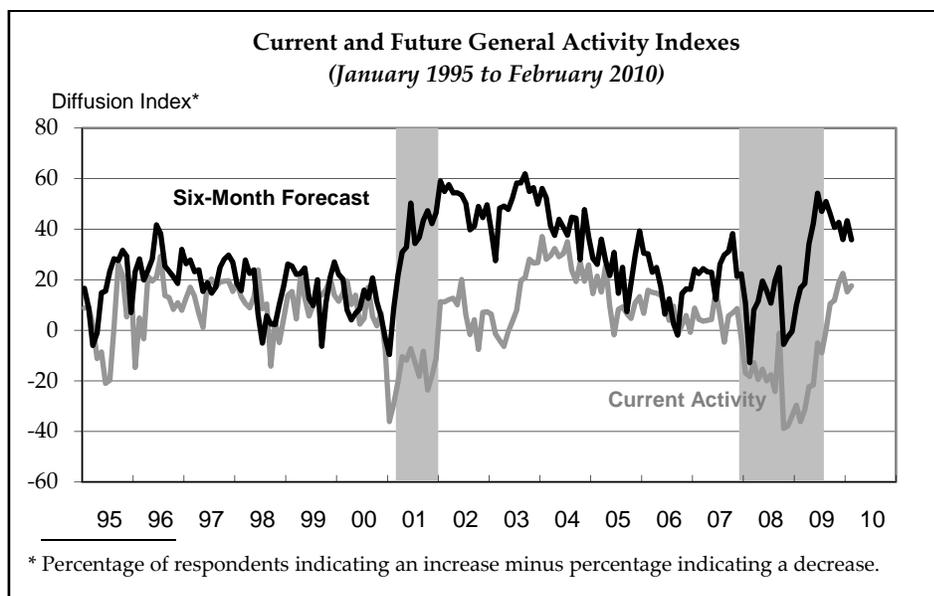
February 2010

Manufacturing conditions continue to improve in the region, according to firms polled for this month's *Business Outlook Survey*. Indexes for general activity, new orders, shipments, and employment all remained positive this month and increased from their readings in January. Firms reported a notable pickup in new orders this month. Overall, firms remain generally optimistic about growth for the manufacturing sector over the next six months.

Indicators Suggest Pickup in Demand

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from a reading of 15.2 in January to 17.6 this month. The index has now remained positive for six consecutive months (see Chart). There was a notable increase in the current new orders index suggesting an improvement in demand for manufactured goods — the new orders index increased 20 points. The current shipments index increased 9 points. The current inventory index increased 5 points, to its first positive reading since September 2007.

Firms' responses continued to suggest that labor market conditions have been stabilizing in recent months. For the third consecutive month, more firms reported an increase in employment than reported declines. The current employment index edged 1 point higher and remains at its highest reading since October 2007. The workweek index was 2 points lower but remained slightly positive for the fourth consecutive month.



Manufactured Goods Prices Remain Steady Despite Higher Costs

Respondents have been reporting higher costs for inputs in recent months. Thirty-four percent of firms reported higher prices paid, while 2 percent reported lower prices paid. On balance, however, firms reported near-steady prices for their own manufactured goods. The largest percentage, 77 percent, reported no change in the prices of their manufactured goods. The percentage of firms reporting higher prices (13 percent) was only slightly greater than the percentage reporting lower prices (9 percent).

Manufacturers Remain Optimistic

The future general activity index remained positive for the 14th consecutive month but dipped from 43.3 in January to 35.8 (see Chart). Indexes for future new orders and shipments also remained at relatively high levels. The future new orders index edged down 3 points, but the future shipments in-

dex increased by 11 points. For the tenth consecutive month, the percentage of firms expecting employment to increase over the next six months (31 percent) exceeded the percentage expecting declines (17 percent). Firms continue to forecast increases in inventories, unfilled orders, and delivery times. The planned capital spending index rose 9 points to its highest reading in almost three years.

In special questions this month, firms were asked about their current inventory situation (see *Special Questions*). Nearly 57 percent of firms indicated that their level of inventories was about right for current conditions. Eighteen percent of the firms indicated inventories would rise in the first quarter. Nearly 21 percent of firms indicated inventories would be reduced in the first quarter: When the same question

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was posed one year ago, a much higher percentage (44 percent) indicated inventories were too high and were expected to decrease. Inventory reductions of firms' customers have diminished significantly since the same time last year; 21 percent of firms indicated that their customers' inventories have declined in recent months, but that is significantly lower than the 67 percent of firms that indicated customers were reducing inventories at the same time last year.

Summary

According to respondents to the February *Business Outlook Survey*, regional manufacturing activity continues to expand. All of the broad indicators showed some improvement from the previous month, with a notable pickup in new orders. Firms expect continued growth through the first half of 2010. There was also an improvement in capital spending plans.

Special Questions (February 2010)

1. Choose the statement that best characterizes your current inventory situation.
Inventories are: (% of respondents)

	Feb 2010	Feb 2009
About right for current economic conditions	56.9	43.9
Too low and are expected to <i>increase</i> in the first quarter	11.1	3.7
Too high and are expected to <i>increase</i> in the first quarter	6.9	6.1
Too high and are expected to <i>decrease</i> in the first quarter	18.1	43.9
Too low and are expected to <i>decrease</i> in the first quarter	2.8	0.0

2. Over the past several months, did your customers' inventory plans:

	Feb 2010	Feb 2009
Increase	11.1	3.7
Not change	51.4	18.3
Decrease	20.8	67.1

Note: Percentages may not add to 100% because of no responses for some questions.

BUSINESS OUTLOOK SURVEY February 2010	February vs. January					Six Months from Now vs. February				
	<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?	15.2	33.1	51.3	15.6	17.6	43.3	48.0	35.5	12.2	35.8
Company Business Indicators										
New Orders	3.2	34.2	53.9	11.4	22.7	44.6	54.0	31.8	12.8	41.3
Shipments	11.0	33.7	49.0	14.0	19.7	39.8	59.9	27.7	8.9	51.0
Unfilled Orders	3.6	11.2	68.8	18.7	-7.5	17.4	24.3	63.7	10.2	14.1
Delivery Times	6.6	10.5	74.9	12.5	-2.1	9.4	14.9	75.3	5.9	9.0
Inventories	-1.6	21.1	60.9	17.9	3.2	10.2	30.8	48.6	15.4	15.4
Prices Paid	33.2	33.9	63.5	1.5	32.4	47.0	52.8	40.3	1.6	51.2
Prices Received	2.7	12.7	76.6	9.0	3.7	15.4	34.0	55.5	7.6	26.4
Number of Employees	6.1	19.3	68.7	11.8	7.4	14.4	30.6	52.5	16.9	13.8
Average Employee Workweek	4.2	16.0	67.2	14.1	1.9	22.4	33.5	55.4	9.7	23.9
Capital Expenditures	--	--	--	--	--	16.8	34.6	50.7	8.6	26.0

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 February 17, 2010.