



BUSINESS OUTLOOK SURVEY

May 2010

According to the firms polled for this month's *Business Outlook Survey*, regional manufacturing activity continues to expand. Firms reported some expansion of overall employment again this month. The survey's broad indicators of future activity continue to suggest that the region's manufacturing executives expect growth in business over the next six months.

Indicators Suggest Continued Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased slightly from 20.2 in April to 21.4 this month. The index has now edged higher for four consecutive months and has remained positive for the ninth consecutive month (see Chart). Although still positive and suggesting growth, indexes for new orders and shipments showed a mixed pattern this month: The new orders index fell 8 points, while the shipments index increased 10 points. The current inventory index decreased 10 points and fell into negative territory, suggesting declines in inventories. Indexes for unfilled orders and delivery times were both negative this month, suggesting some weakening in activity from April.

Firms' responses continue to suggest that labor market conditions are improving, but indexes for current employment and work hours fell from their readings in April. For the sixth consecutive month, more firms reported an increase in employment (21 percent) than reported a decline (17 percent). The workweek index declined slightly but

has now remained positive for seven consecutive months.

Firms Report Cost Pressures and Prices of Manufactured Goods Are Near Steady

Thirty-nine percent of firms reported higher input prices this month, down somewhat from 44 percent last month. The prices paid index decreased 7 points. On balance, however, firms reported near-steady prices for their own manufactured goods: The percentage of firms reporting increases in their prices (17 percent) was only slightly higher than the percentage reporting decreases (13 percent). The largest percentage, 66 percent, reported no change in the prices of their manufactured goods. The prices received index, however, crept nearly 3 points higher, to 3.5

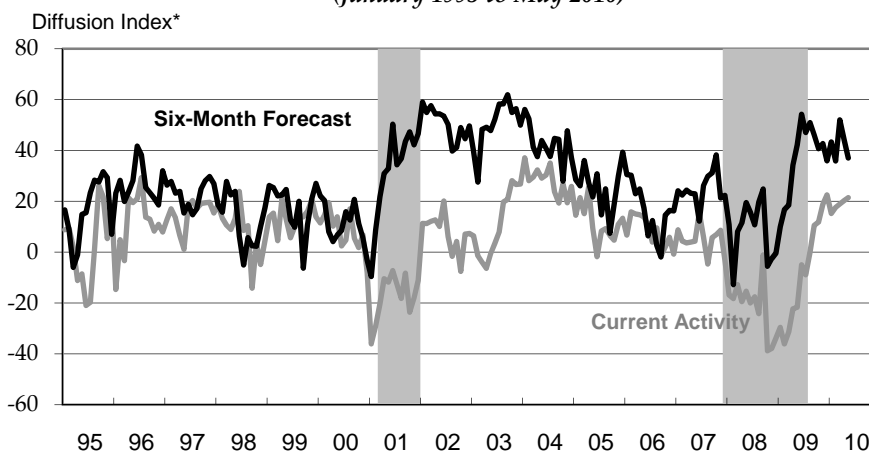
Manufacturing Executives Are Still Optimistic Overall

The future general activity index remained positive for the 17th consecutive month, al-

though it fell from 44.2 in April to 37.0 this month (see Chart). The future new orders and shipments indexes remain at high levels, although they moved in different directions: The future shipments index decreased 2 points, while the future new orders index increased 2 points. For the 13th consecutive month, the percentage of firms expecting employment to increase over the next six months (37 percent) exceeded the percentage expecting declines (7 percent). The future employment index increased 8 points and is at its highest reading since May 2004.

In special questions this month, firms were asked about their short-run production situation as well as their plans for hiring workers (see Special Questions). While 59 percent of firms expect to increase production over the next six months, far less (30 percent) expect to hire additional workers to accommodate pro-

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



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

Released: May 20, 2010, 10:00 a.m. ET
The June *Business Outlook Survey* will be released on June 17, 2010, at 10 a.m. ET.

duction increases; the remaining firms indicated that they will increase work hours or increase productivity without hiring. Responding firms cited uncertainty about future product demand and the cost of future employment (health-care costs, wages, etc.), followed by excess capacity and a lack of demand for products as the most important factors for not hiring, in general.

Summary

According to respondents to the May *Business Outlook Survey*, regional manufacturing activity continues to expand. All of the survey's broad indicators remained positive, and the responding firms reported some expansion in employment. Many firms, however, pointed to uncertainty about product demand and the cost of hiring workers, as well as low capacity utilization, as reasons for not increasing employment. Firms expect continued growth over the next six months, with well over half of the firms expecting growth in activity, new orders, and shipments.

Special Questions (May 2010)				
1. Which of the following characterizes your short-run production and employment situation?				
	% of total respondents			
We do not expect to increase production in the next six months.	37.5			
We expect to increase production in the next six months.	58.8			
No response	3.8			
2. If you expect to increase production over the next six month, this will be accomplished by:				
Hiring additional workers	30.0			
Increasing work hours of current staff, without additional hiring	25.0			
Increasing productivity of current staff, without hiring	8.0			
No response	36.3			
3. If you are not hiring additional workers, which of the following reasons are most relevant for not hiring?				
	% of total respondents			
	Most important	Important	Not Important	No Response
Lack of demand for products	18.8	17.5	8.8	54.9
Plant operating below capacity	21.3	18.8	8.8	51.1
Uncertainty about future product demand	25.0	21.3	5.0	48.7
Cost of future employment (health-care costs, wages, etc.)	25.0	22.5	3.8	48.7
Other	6.3	0.0	1.3	92.4

BUSINESS OUTLOOK SURVEY May 2010	May vs. April					Six Months from Now vs. May				
	<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?	20.2	31.9	53.8	10.5	21.4	44.2	52.6	24.4	15.6	37.0
Company Business Indicators										
New Orders	13.9	28.5	48.6	22.4	6.1	46.5	59.9	22.4	11.5	48.4
Shipments	5.6	30.9	52.9	15.1	15.8	42.8	56.3	19.0	15.8	40.5
Unfilled Orders	-0.9	13.1	68.5	16.1	-3.0	24.6	18.1	54.7	14.1	4.0
Delivery Times	5.4	8.9	81.0	10.1	-1.2	11.3	13.7	59.7	16.4	-2.7
Inventories	2.0	15.8	59.2	23.7	-7.9	8.6	22.2	46.8	24.2	-2.0
Prices Paid	42.7	39.3	52.7	3.8	35.5	50.6	41.8	40.9	10.5	31.3
Prices Received	1.0	16.6	66.3	13.1	3.5	23.6	27.7	49.4	11.9	15.8
Number of Employees	7.3	20.6	62.0	17.4	3.2	22.0	37.1	45.7	7.0	30.1
Average Employee Workweek	8.3	21.4	57.3	14.5	7.0	15.6	30.6	40.3	16.0	14.6
Capital Expenditures	--	--	--	--	--	10.2	23.6	52.2	15.9	7.7

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 May 18, 2010.