



# BUSINESS OUTLOOK SURVEY

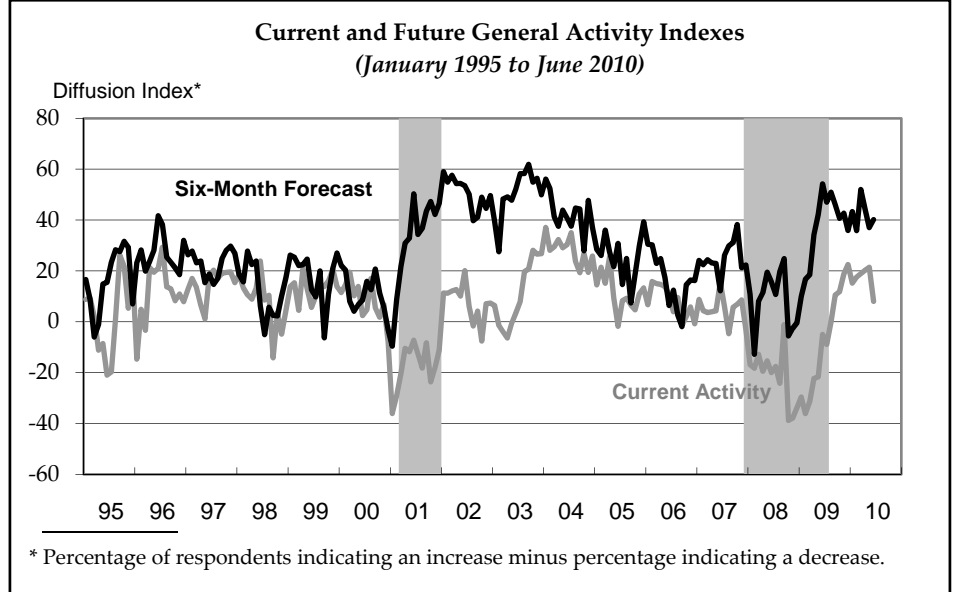
June 2010

Results from the *Business Outlook Survey* suggest that regional manufacturing activity continues to expand in June, but at a slower pace than in May. Surveyed firms reported no expansion of overall employment and work hours compared with May. Fewer firms also reported increases in prices of inputs this month. The survey's broad indicators of future activity continued to suggest that the region's manufacturing executives still expect growth in business over the next six months.

## Some Indicators Suggest Slower Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased notably from a reading of 21.4 in May to 8.0 in June. The index, which had edged higher for four consecutive months, fell back to its lowest reading in 10 months (see Chart). Although still positive and suggesting growth, indexes for new orders and shipments showed a mixed pattern this month — the new orders index increased 3 points, while the shipments index decreased 2 points. The current inventory index increased 13 points and moved back from a negative reading into positive territory, suggesting an increase in inventories this month.

Until this month, firms' responses had been suggesting that labor market conditions were improving, but indexes for current employment and work hours were both slightly negative. For the first time in seven months, more firms reported a decrease in employment (18 percent) than reported an increase (17 percent). The largest percentage (62 percent), however, reported steady



employment levels. The workweek index also declined into negative territory, its first negative reading in eight months.

## Firms Report Reduced Cost Pressures

Nineteen percent of firms reported higher input prices this month, down significantly from 39 percent last month. The prices paid index decreased 26 points but remains positive, now at 10.0. On balance, firms reported declines in their own manufactured goods — slightly more firms reported decreases in their prices (15 percent) than reported increases (9 percent). The largest percentage, 71 percent, reported no change in the prices of their manufactured goods. The prices received index fell 10 points, to -6.5, its lowest reading in nine months.

## Manufacturers Expect Continued Growth

The future general activity index remained positive for the 18th consecutive month and increased slightly from 37.0 in May to 40.2

(see Chart). The future new orders and shipments indexes remain at high levels, although they fell 9 points and 6 points, respectively. For the 14th consecutive month, the percentage of firms expecting employment to increase over the next six months (33 percent) exceeded the percentage expecting declines (13 percent). The future employment index, however, decreased 11 points and is at its lowest reading in four months.

In special questions this month, firms were asked about the probability that they would relocate some or all of their operations out of the tri-state region over the next five years (see Special Questions). The average probability of relocating was 12 percent, a decline from 20 percent last year. The average probability of relocating all operations was 4.2 percent, which was little changed from previous surveys. Firms were also asked to rank the factors

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that were influencing them to leave or stay in the region. According to the firms' responses, the two most important factors influencing the decision to leave are (1) the cost of labor and (2) taxes, subsidies, or regulations. The two most important factors influencing the decision to stay in the region are existing investment in fixed capital and the availability of skilled workers.

### Summary

According to respondents to the June *Business Outlook Survey*, regional manufacturing activity continues to expand. A few indicators, including employment, suggest a slower pace of growth this month. Firms also reported a moderation in cost pressures this month, and more firms reported price reductions than reported increases for their own manufactured goods. Firms expect continued growth in their manufacturing business over the next six months, with over half of the firms expecting growth in activity, new orders, and shipments.

Special Questions (June 2010)				
1) What is the probability that you will relocate some or all of your operations out of the tri-state region over the next five years?				
	Average Probability (%)			
	2010	2009	2007	2006
Probability of relocating <b>some</b> operations:	12.1	20.2	26.9	15.9
Probability of relocating <b>all</b> operations:	4.2	5.4	5.4	1.9
2) How important are the following factors in influencing your firm's decision about <b>leaving</b> the tri-state region?				
	Very or Most Relevant For Leaving (% of respondents)*			
	2010	2009	2007	
Cost of labor	64.5	73.4	84.4	
Taxes/subsidies and/or regulations	56.3	67.9	66.0	
Availability of skilled workers	50.0	55.6	63.8	
Cost of energy (electricity, oil, gas, etc.)	41.7	54.0	52.2	
Proximity to customers	33.3	41.3	38.3	
Proximity to suppliers or raw materials	12.5	20.6	21.7	
3) How important are the following factors in influencing your decision to <b>stay</b> in the tri-state region?				
	Very or Most Relevant For Staying (% of respondents)*			
	2010	2009		2007
Heavily invested in fixed capital	71.6	72.4		72.4
Availability of skilled workers	54.1	57.3		57.3
Costs of labor	37.8	45.2		45.2
Taxes/ subsidies and/or regulations	32.4	33.8		33.8
Proximity to customers	29.7	48.7		48.7
Cost of energy (electricity, oil, gas, etc.)	21.6	33.3		33.3
Proximity to suppliers or raw materials	10.8	20.5		20.5
*Firms were asked to choose one of the following categories for each factor: "not relevant," "somewhat relevant," "very relevant," or "most relevant."				

BUSINESS OUTLOOK SURVEY June 2010	June vs. May					Six Months from Now vs. June				
	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	21.4	26.1	55.7	18.1	8.0	37.0	51.9	36.5	11.7	40.2
Company Business Indicators										
New Orders	6.1	30.8	46.7	21.8	9.0	48.4	54.4	28.5	14.7	39.7
Shipments	15.8	30.3	53.6	16.1	14.2	40.5	51.0	30.5	16.8	34.2
Unfilled Orders	-3.0	18.7	61.6	18.8	-0.1	4.0	24.6	55.7	15.3	9.2
Delivery Times	-1.2	16.0	74.7	9.3	6.8	-2.7	13.3	63.7	21.6	-8.3
Inventories	-7.9	20.6	60.3	16.0	4.6	-2.0	25.3	48.6	23.5	1.8
Prices Paid	35.5	19.2	70.6	9.3	10.0	31.3	39.2	46.1	10.9	28.3
Prices Received	3.5	8.5	70.8	15.0	-6.5	15.8	30.3	54.1	13.2	17.0
Number of Employees	3.2	16.8	61.6	18.3	-1.5	30.1	32.9	40.7	13.4	19.5
Average Employee Workweek	7.0	12.5	70.4	14.1	-1.5	14.6	33.0	52.8	7.8	25.2
Capital Expenditures	--	--	--	--	--	7.7	19.9	60.2	16.9	3.0

#### 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 June 15, 2010.