



BUSINESS OUTLOOK SURVEY

August 2010

Results from the *Business Outlook Survey* suggest that regional manufacturing activity weakened in August, after two months of slowing activity. Indexes for general activity, new orders, and shipments all registered negative readings this month. Firms also reported declines in employment and work hours. 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, but optimism has waned notably in recent months.

Indicators Suggest Weakness

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from a reading of 5.1 in July to -7.7 in August. The index turned negative, marking a period of declining monthly activity for the first time since July 2009 (see Chart). Indexes for new orders and shipments also suggest a slowing this month; the new orders index fell slightly, to -7.1, while the shipments index turned negative, declining to -4.5. Indicating weakness, indexes for both delivery times and unfilled orders remained negative this month.

The percentage of firms reporting a decline in employment (23 percent) was higher than the percentage (20 percent) reporting an increase. More concerning was the significant drop in the average employee work-week index from 1.7 in July to -17.1 in August.

Firms Report Lower Prices for Products

On balance, firms reported declines in prices for their own manufactured goods:

More firms reported decreases in prices (19 percent) than reported increases (6 percent). The largest percentage, 70 percent, reported no change in prices for their manufactured goods. Firms reported somewhat less cost pressures over the past three months. The prices paid index decreased 1 point this month, to 11.8.

Manufacturers Expect Continued Growth

The future general activity index remained positive for the 20th consecutive month but weakened slightly (see Chart). The future new orders index increased to 25.7 and shipments remained unchanged. Information about future inventories suggests that draw-downs are expected in the next six months.

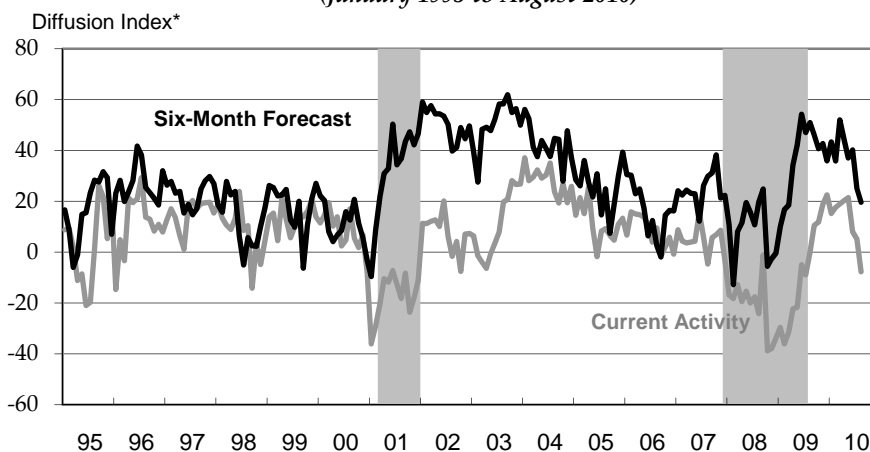
The percentage of firms expecting employment to decrease over the next six months (22 percent) slightly exceeded the percentage expecting increases (21 percent). The future employment index decreased 14

points, moving the index into negative territory.

In special questions this month, firms were asked about exporting activity and any changes to production outsourcing or "insourcing," the return of operations from abroad (see Special Questions). About 30 percent of the firms indicated that the share of sales attributed to exports increased over the past year, a trend consistent with the previous two years.

Among firms that reported an increase in export share, the mean response indicates that 13.6 percent of sales growth is attributable to exports. Since the start of 2010, roughly 10 percent of firms have moved some activities abroad; only 5 percent have returned activities to the U.S.

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



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

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The September *Business Outlook Survey* will be released on September 16, 2010, at 10 a.m. ET.

Summary

According to respondents to the August *Business Outlook Survey*, regional manufacturing activity has weakened, although the new orders and shipments indexes have not fallen significantly. Firms reported that their employment situation has softened; indexes for employment and average hours worked were negative. However, firms expect continued growth in their manufacturing business over the next six months, but that outlook has been somewhat dampened over the past few months.

Special Questions (August 2010)			
1. Over the past year, have exports as a share of your total sales:			
	Aug. 2010 (%)	Aug. 2008	Aug. 2007
Increased substantially?	3.2	11.9	10.0
Increased modestly?	27.0	39.0	28.6
Stayed the same?	57.1	47.4	54.3
Decreased modestly?	4.8	1.7	5.7
Decreased substantially?	7.9	0.0	1.4
2. If your exports are currently growing, what percent of your sales growth is attributable to exports?			
	Aug. 2010 (%)	Aug. 2008	Aug. 2007
Mean response:	13.6	25.3	18.9
3. Since the beginning of the year, have you outsourced or moved any of your activities or production abroad?			
	Aug. 2010 (%)	Aug. 2008	
Yes:	9.7	11.1	
No:	90.3	88.9	
4. Since the beginning of the year, have you returned any of the activities or production you previously outsourced or moved abroad back to the U.S.?			
	Aug. 2010 (%)	Aug. 2008	
Yes:	4.5	6.2	
No:	95.5	93.8	

BUSINESS OUTLOOK SURVEY August 2010	August vs. July					Six Months from Now vs. August				
	<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?	5.1	17.9	49.1	25.6	-7.7	25.0	35.3	39.3	15.7	19.6
Company Business Indicators										
New Orders	-4.3	22.8	45.9	29.8	-7.1	17.9	40.0	36.2	14.4	25.7
Shipments	4.0	21.7	49.1	26.2	-4.5	21.7	39.3	34.7	17.6	21.7
Unfilled Orders	-8.6	14.5	61.0	21.6	-7.1	-3.7	18.2	59.2	15.9	2.2
Delivery Times	-8.1	7.6	69.3	18.6	-11.0	-11.6	14.7	62.8	13.9	0.8
Inventories	4.5	12.5	58.6	24.0	-11.6	-13.8	19.4	37.5	36.3	-16.9
Prices Paid	13.1	21.6	65.7	9.9	11.8	27.5	39.4	44.6	9.2	30.2
Prices Received	-8.4	6.3	69.9	18.9	-12.5	10.1	21.8	53.7	18.8	3.0
Number of Employees	4.0	20.0	51.5	22.7	-2.7	12.6	20.7	50.9	22.4	-1.7
Average Employee Workweek	1.7	11.6	54.3	28.8	-17.1	9.5	15.0	59.6	18.3	-3.3
Capital Expenditures	--	--	--	--	--	8.6	32.0	39.8	19.7	12.3

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 August 16, 2010.