



# BUSINESS OUTLOOK SURVEY

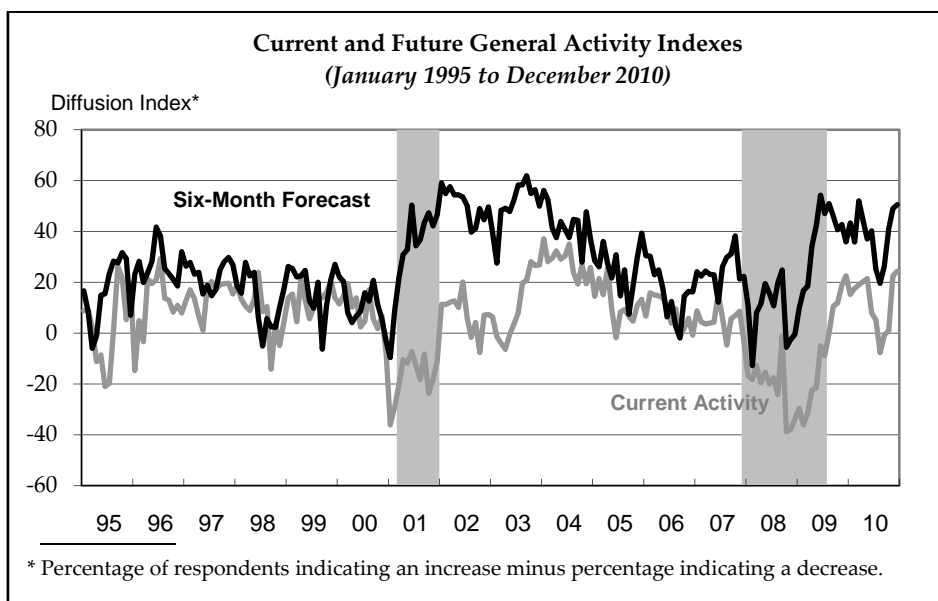
## December 2010

Results from the *Business Outlook Survey* suggest that regional manufacturing conditions continued to improve in December. All of the broad indicators remained positive and suggest an expansion of activity. Increases in input prices were more widespread this month, and more firms reported increases in prices for their manufactured goods. The survey's broad indicators of future activity suggest that optimism among the region's manufacturing executives also continues to improve.

### Indicators Suggest Continued Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from a reading of 22.5 in November to 24.3 in December. The index has been positive for three consecutive months (see Chart). The demand for manufactured goods is showing continued improvement: The new orders index increased 4 points this month and has increased for three consecutive months. The shipments index declined 10 points, but it has remained positive for three consecutive months.

Firms' responses continue to suggest that labor market conditions are improving. For the fourth consecutive month, the percentage of firms reporting an increase in employment (17 percent) is higher than the percentage reporting a decline (12 percent). Although the overall employment index fell 8 points, the workweek index increased 8 points, and it has increased sharply over the past three months.



### Higher Prices Are Reported

Price increases for inputs as well as firms' own manufactured goods are more widespread this month. Fifty-two percent of the firms reported higher prices for inputs, compared with 38 percent in the previous month. The prices paid index, which increased 17 points this month, has increased 41 points over the past three months. On balance, firms also reported a rise in prices for manufactured goods: More firms reported increases in prices (21 percent) than reported decreases (10 percent), and the prices received index increased 13 points, its first positive reading in eight months.

### Optimism Has Been Increasing

The future general activity index remained positive for the 24th consecutive month and increased 2 points, to a reading of 50.5, its highest reading in nine months (see Chart). The indexes for future new orders and shipments also showed improvement, increasing

7 and 5 points, respectively. More firms expect to increase employment over the next six months (38 percent) than expect to decrease employment (10 percent). The future employment index increased 7 points, to its highest reading in seven months.

In this month's special questions, firms were asked about their expectations for changes in various categories of input and labor costs for the coming year (see Special Questions). Similar to responses in previous years, current responses indicate that the largest annual increase is expected to be for health benefits (8.6 percent). In contrast, other labor costs (wages and non-health-care costs)

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are expected to rise only 2.1 and 2.3 percent, respectively. All other nonlabor expense categories are expected to increase in 2011: energy (3.1 percent), raw materials (3.9 percent), and intermediate goods (2.7 percent). Firms were also asked how the expected cost increases will compare to 2010 costs. In every category the percentage of firms indicating that their costs would be higher in 2011 was greater than the percentage reporting that their costs would be lower.

### Summary

According to respondents to the December *Business Outlook Survey*, regional manufacturing is continuing to grow at year-end. All of the broad indicators remained positive, with some firms expanding their workforce and more firms reporting longer average work hours. Increases in input prices continue to be reported, and price increases for manufactured goods are more evident this month. The degree of confidence about future economic conditions continues to show improvement.

<b>Special Questions (December 2010)</b>						
1. What percentage change in costs do you expect for the following categories in 2011?						
	Energy	Other Raw Materials	Intermediate Goods	Wages	Health Benefits	Nonhealth Benefits
Increase 15% or more	2.4	0	0	1.2	15.5	1.2
Increase of 12.5-15%	0	1.2	1.2	0	4.8	1.2
Increase of 10-12.5%	4.8	4.8	0	0	13.1	0
Increase of 7.5-10%	10.7	15.5	6.0	0	20.2	1.2
Increase of 5-7.5%	13.1	8.3	8.3	2.4	17.9	7.1
Increase of 2.5-5%	16.7	22.6	20.2	38.1	9.5	25.0
Increase of < 2.5%	20.2	27.4	26.2	33.3	7.1	19.0
Stay at current levels	13.1	10.7	22.6	16.7	4.8	35.7
Decline of < 2.5%	6.0	0	0	0	0	0
Decline of 2.5% or more	7.1	1.2	0	2.4	0	0
<b>Avg. Expected Change</b>	<b>3.1</b>	<b>3.9</b>	<b>2.7</b>	<b>2.1</b>	<b>8.6</b>	<b>2.3</b>
<i>Previous estimates for 2010 from same time last year</i>	<b>7.9</b>	<b>2.9</b>	<b>1.6</b>	<b>1.3</b>	<b>8.6</b>	<b>1.6</b>
2. How do these expected costs compare with those in 2010?						
<i>Higher</i>	63.1	65.5	44.0	44.0	64.3	27.4
<i>Lower</i>	11.9	3.6	2.4	9.5	4.8	3.6
<i>Same</i>	17.9	22.6	39.3	39.3	23.8	59.5
* Percentages may not add to 100 percent because some reporters did not respond to the questions.						

<b>BUSINESS OUTLOOK SURVEY December 2010</b>	December vs. November					Six Months from Now vs. December				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>
What is your evaluation of the level of general business activity?	22.5	36.1	52.1	11.8	<b>24.3</b>	<b>49.0</b>	56.6	31.4	6.1	<b>50.5</b>
Company Business Indicators										
New Orders	<b>10.4</b>	33.0	46.5	18.3	<b>14.6</b>	<b>39.4</b>	54.0	33.9	7.5	<b>46.5</b>
Shipments	<b>16.8</b>	30.1	46.0	22.8	<b>7.3</b>	<b>39.5</b>	51.5	36.9	6.8	<b>44.7</b>
Unfilled Orders	<b>3.7</b>	18.8	68.8	12.4	<b>6.5</b>	<b>9.8</b>	21.9	66.3	10.2	<b>11.7</b>
Delivery Times	<b>2.1</b>	9.9	87.4	1.5	<b>8.5</b>	<b>3.8</b>	12.2	81.2	3.8	<b>8.4</b>
Inventories	<b>-5.9</b>	15.3	62.0	17.3	<b>-2.0</b>	<b>-12.8</b>	26.1	47.6	23.5	<b>2.6</b>
Prices Paid	<b>34.0</b>	51.9	47.3	0.7	<b>51.2</b>	<b>53.9</b>	63.2	34.6	0.0	<b>63.2</b>
Prices Received	<b>-2.1</b>	21.1	68.5	10.4	<b>10.7</b>	<b>33.4</b>	32.7	59.3	5.9	<b>26.8</b>
Number of Employees	<b>13.3</b>	16.8	70.2	11.7	<b>5.1</b>	<b>21.7</b>	38.1	51.4	9.8	<b>28.4</b>
Average Employee Workweek	<b>10.9</b>	19.3	78.2	0.0	<b>19.3</b>	<b>19.0</b>	30.0	60.0	6.3	<b>23.7</b>
Capital Expenditures	--	--	--	--	--	<b>20.2</b>	36.6	47.3	6.4	<b>30.1</b>

### 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 December 13, 2010.