



BUSINESS OUTLOOK SURVEY

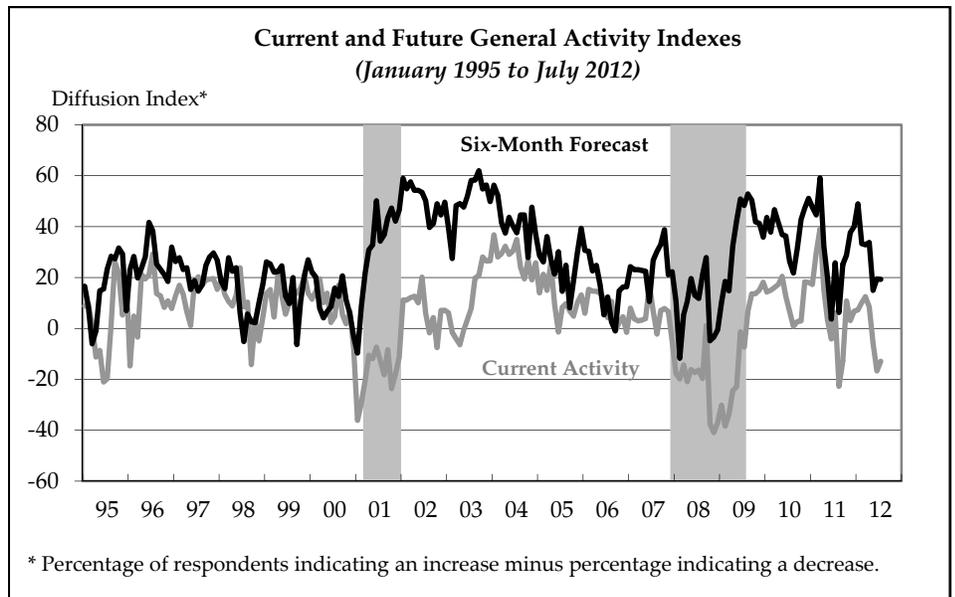
July 2012

Firms responding to the July *Business Outlook Survey* continued to report weak business conditions. Although the survey's indicators for general activity, new orders, and shipments improved from June, they remained negative this month, suggesting overall declines in business. Firms also reported declines in employment this month and shorter work hours. The manufacturers reported near-steady input and output prices this month. The survey's indicators of activity over the next six months remained positive but moderated somewhat from June.

Indicators Suggest Continued Decreases

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from a reading of -16.6 in June to -12.9. This marks the third consecutive negative reading for the index (see Chart 1). Nearly 32 percent of the firms reported declines in activity this month, exceeding the 19 percent that reported increases. Indexes for new orders and shipments remained negative but increased 12 and 8 points, respectively.

Labor market conditions at the reporting firms deteriorated this month. The current employment index decreased 10 points, to -8.4, its second negative reading in three months. The percent of firms reporting decreases in employment (18 percent) exceeded the percent reporting increases (10 percent). Firms also indicated fewer hours worked this month: The average workweek index increased 2 points but posted its fourth consecutive negative reading.



Price Indexes Reflect Steady Prices

Indexes for prices paid and prices received both increased slightly from their readings in June but suggest near-steady prices this month. The prices paid index, which turned negative last month, increased from -2.8 to 3.7. Sixty-five percent of the firms reported steady input prices, and the 19 percent reporting higher prices was nearly offset by the 15 percent reporting declines. Firms also reported near-steady prices received for their own products. While slightly more firms reported an increase in product prices (13 percent) than reported a decrease (11 percent), 76 percent reported steady prices. The prices received index rose from -6.9 to 1.6.

Six-Month Indicators Moderate

The future general activity index remained virtually unchanged at 19.3 this month (see Chart 1). The percentage of firms expecting increases in activity over

the next six months (37 percent) is significantly higher than the percentage expecting decreases (18 percent). The indexes for future new orders and shipments remained positive but fell back notably, decreasing 12 and 19 points, respectively. The future employment index declined 7 points, although the share of firms expecting to increase employment still outnumbered those expecting to decrease employment 2:1.

In special questions, firms were asked about recent demand for their own goods and to characterize reasons for slowing. The percentage indicating that demand had decreased over the past two months (37 percent) was higher than the percentage reporting an increase (30 percent). Of those firms that experienced some slowing, the most frequently cited reasons were increased uncertainty

Released: July 19, 2012, 10 a.m. ET.
The August Business Outlook Survey will be released on August 16, 2012, at 10 a.m. ET.

about the economy (65 percent) and about future tax rates and government regulation (52 percent). Firms were also asked to forecast production in the third quarter compared to the second quarter. The median and average forecasts call for virtually flat to slight declines in levels of production during the third quarter. Nearly 22 percent expect decreases of greater than 4 percent; 12 percent expect increases greater than 4 percent.

Summary

The July *Business Outlook Survey* suggests that firms in the region's manufacturing sector are continuing to experience declines in overall activity. More firms reported declines in new orders, shipments, and employment than reported increases. Prices, on balance, were near steady this month. The outlook among reporting firms, while not as optimistic as last month, suggests that firms believe that activity will rebound over the next six months.

Special Questions (July 2012)		
1. Over the past two months, how would you characterize the demand for your manufactured products?		
Increased significantly	4.1%	30.1%
Increased moderately	26.0%	
No change	21.9%	36.9%
Decreased moderately	34.2%	
Decreased significantly	2.7%	
2. If you have experienced a recent slowing in growth in demand, to what do you attribute the slowdown? (Choose all factors that apply.)		
Increased uncertainty about the economy		65%
Increased uncertainty about future tax rates or government regulations		52%
Seasonal factors		39%
A slowing in export demand		22%
The lack of federal government spending		9%
The lack of state and local government spending		7%
Cost factors and pricing associated with energy, commodities, or transportation		7%
3. What percentage change do you anticipate for production in the third quarter over the second quarter?		
Increase of more than 4%	12.3%	35.5%
Increase of 2-4%	16.4%	
Increase of 0-2%	6.8%	
No change	15.1%	46.6%
Decline of 0-2%	13.7%	
Decline of 2-4%	11.0%	
Decline of more than 4%	21.9%	
Average: -0.5%		Median: 0

BUSINESS OUTLOOK SURVEY July 2012	July vs. June					Six Months from Now vs. July				
	<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?	-16.6	18.7	44.0	31.6	-12.9	19.5	37.2	36.5	17.9	19.3
Company Business Indicators										
New Orders	-18.8	28.6	34.7	35.5	-6.9	38.2	42.4	35.6	16.4	26.1
Shipments	-16.6	23.1	45.2	31.7	-8.6	38.0	37.0	37.8	17.9	19.0
Unfilled Orders	-16.3	17.2	56.1	26.7	-9.5	2.5	21.5	59.2	18.2	3.3
Delivery Times	-15.5	1.8	77.9	17.4	-15.7	-7.3	4.7	67.8	17.7	-13.0
Inventories	-8.7	20.1	52.2	27.6	-7.5	-12.0	13.5	47.4	29.4	-16.0
Prices Paid	-2.8	19.0	64.7	15.3	3.7	20.1	33.9	46.3	11.1	22.8
Prices Received	-6.9	12.7	75.5	11.1	1.6	13.5	26.1	54.9	11.5	14.6
Number of Employees	1.8	9.9	71.8	18.3	-8.4	18.7	23.7	55.2	12.4	11.3
Average Employee Workweek	-19.1	11.3	57.2	28.6	-17.3	-0.8	22.3	58.6	7.8	14.5
Capital Expenditures	--	--	--	--	--	19.4	26.8	40.4	23.5	3.3

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 July 17, 2012.