



BUSINESS OUTLOOK SURVEY

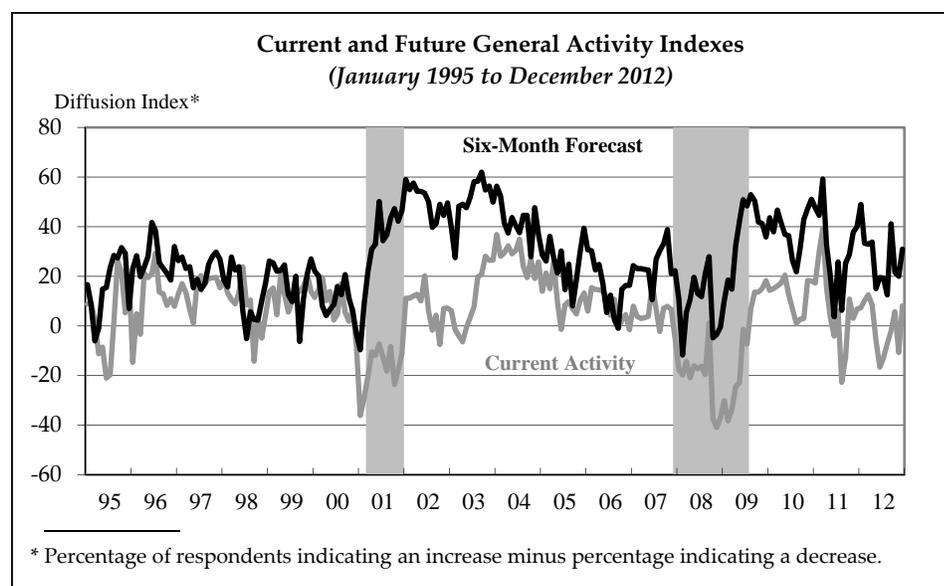
December 2012

Manufacturing activity rebounded this month, according to firms responding to the December *Business Outlook Survey*. Following reported declines in business activity in late October and early November from the effects of Hurricane Sandy, most of the survey's measures showed notable improvement this month. The survey's broad indicators of future activity also showed improvement this month.

Indicators Suggest a Pickup at Year-End

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from a reading of -10.7 in November to 8.1 this month. This is the highest reading since April and is slightly above the reading before the post-storm decline in November (see Chart). The demand for manufactured goods picked up: the new orders index increased 15 points, from -4.6 in November to 10.7 this month. The current shipments index also improved notably, rising by 25 points.

Labor market conditions at the reporting firms improved marginally this month. The current employment index, at 3.6, registered its first positive reading in six months. The percentage of firms reporting increases in employment (20 percent) narrowly exceeded the percentage reporting decreases (16 percent). Firms also indicated an increase in the average workweek compared to last month.



Prices Received Index Moves Higher

The indexes for prices received for respondents' own manufactured goods and prices paid for purchased inputs suggest modest price pressures. The percentage of firms reporting higher prices for their own manufactured goods edged up from 16 percent to 20 percent, and the prices received index increased 9 points, to 15.4. The prices paid index was virtually unchanged at 27.8; 30 percent of the firms reported higher prices for inputs.

Six-Month Indicators Improve

The survey's future indicators suggest improved optimism among the reporting manufacturers. The future general activity index increased from 20.0 to 30.9, its highest reading in three months (see Chart 1). The percentage of firms expecting increases in activity over the next six months (47 percent) exceeded the percentage expecting decreases (16 percent)

by a significant margin. The indexes for future new orders and shipments improved, rising 12 and 7 points, respectively. The future employment index also increased notably, from 4.2 to 14.8.

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 (7.2 percent). In contrast, other labor costs (wages and non-health-care benefits) are expected to rise only 2.1 and 2.3 percent,

*Released: December 20, 2012, 10 a.m. ET.
The January Business Outlook Survey will be released on January 17, 2013, at 10 a.m. ET. The survey's annual historical revisions, which incorporate new seasonal adjustment factors, will be released on Thursday, January 10, 2013, at 10 a.m. ET.*

respectively. All other nonlabor expense categories are expected to increase in 2013: raw materials (2.6 percent), intermediate goods (2.2 percent), and energy (0.8 percent). Firms were also asked how the expected cost increases will compare to 2012 costs. In every category, the share of firms indicating that their costs would be higher in 2013 was greater than the share reporting that their costs would be lower.

Summary

The December *Business Outlook Survey* suggests that activity in the region's manufacturing sector rebounded this month. Firms reported increases in overall activity, new orders, shipments, and employment compared to the declines reported in November following Hurricane Sandy. A slightly increased share of firms reported receiving higher prices for their manufactured goods this month. The survey's future activity indexes suggest that firms expect growth to continue over the first six months of 2013.

| Special Questions (December 2012) | | | | | | |
|---|------------|---------------------|--------------------|------------|-----------------|--------------------|
| 1. What percentage change in costs do you expect for the following categories in 2013? | | | | | | |
| | Energy | Other Raw Materials | Intermediate Goods | Wages | Health Benefits | Nonhealth Benefits |
| Decline of more than 4% | 1.3% | 0.0% | 0.0% | 0.0% | 2.6% | 0.0% |
| Decline of 3-4% | 5.3% | 1.3% | 0.0% | 0.0% | 0.0% | 1.3% |
| Decline of 2-3% | 11.8% | 2.6% | 0.0% | 0.0% | 0.0% | 1.3% |
| Decline of 1-2% | 9.2% | 3.9% | 0.0% | 0.0% | 0.0% | 0.0% |
| No Change | 15.8% | 14.5% | 17.1% | 13.2% | 7.9% | 19.7% |
| Increase of 1-2% | 17.1% | 19.7% | 23.7% | 22.4% | 0.0% | 18.4% |
| Increase of 2-3% | 19.7% | 19.7% | 23.7% | 42.1% | 5.3% | 21.1% |
| Increase of 3-4% | 3.9% | 15.8% | 14.5% | 15.8% | 9.2% | 19.7% |
| Increase of 4-5% | 7.9% | 3.9% | 7.9% | 2.6% | 11.8% | 9.2% |
| Increase of 5-7.5% | 2.6% | 6.6% | 2.6% | 0.0% | 14.5% | 1.3% |
| Increase of 7.5-10% | 0.0% | 2.6% | 0.0% | 0.0% | 22.4% | 1.3% |
| Increase of 10-12.5% | 0.0% | 3.9% | 0.0% | 0.0% | 6.6% | 1.3% |
| Increase of 12.5-15% | 0.0% | 0.0% | 0.0% | 0.0% | 3.9% | 0.0% |
| Increase of more than 15% | 0.0% | 0.0% | 0.0% | 0.0% | 11.8% | 0.0% |
| Avg. Expected Change | 0.8 | 2.6 | 2.2 | 2.1 | 7.2 | 2.3 |
| 2. How do these expected costs compare with those in 2012? | | | | | | |
| <i>Higher</i> | 36.8% | 40.8% | 40.8% | 42.1% | 59.2% | 34.2% |
| <i>Same</i> | 31.6% | 46.1% | 50.0% | 50.0% | 23.7% | 55.3% |
| <i>Lower</i> | 26.3% | 9.2% | 1.3% | 3.9% | 13.2% | 5.3% |
| * Percentages may not add to 100 percent because some reporters did not respond to the questions. | | | | | | |

| BUSINESS OUTLOOK SURVEY December 2012 | December vs. November | | | | | Six Months from Now vs. December | | | | |
|--|---------------------------------|----------|-----------|----------|------------------------|----------------------------------|----------|-----------|----------|------------------------|
| | <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? | -10.7 | 25.5 | 52.6 | 17.4 | 8.1 | 20.0 | 46.6 | 25.3 | 15.7 | 30.9 |
| Company Business Indicators | | | | | | | | | | |
| New Orders | -4.6 | 31.7 | 45.4 | 21.0 | 10.7 | 24.5 | 50.5 | 24.1 | 14.3 | 36.2 |
| Shipments | -6.7 | 41.4 | 34.2 | 23.1 | 18.3 | 27.2 | 48.9 | 24.0 | 15.2 | 33.7 |
| Unfilled Orders | -4.6 | 17.0 | 65.5 | 14.6 | 2.3 | 3.8 | 17.3 | 54.9 | 13.0 | 4.3 |
| Delivery Times | -13.8 | 12.4 | 74.0 | 13.6 | -1.2 | -5.0 | 17.6 | 60.8 | 10.2 | 7.5 |
| Inventories | -12.5 | 16.3 | 55.9 | 27.8 | -11.5 | -0.2 | 21.1 | 47.8 | 26.1 | -5.0 |
| Prices Paid | 27.9 | 30.2 | 67.2 | 2.5 | 27.8 | 51.7 | 48.7 | 41.1 | 0.0 | 48.7 |
| Prices Received | 6.3 | 20.2 | 75.0 | 4.8 | 15.4 | 13.7 | 36.9 | 49.6 | 7.9 | 29.0 |
| Number of Employees | -6.8 | 19.6 | 61.0 | 16.0 | 3.6 | 4.2 | 26.6 | 51.4 | 11.8 | 14.8 |
| Average Employee Workweek | -6.2 | 18.5 | 66.7 | 14.2 | 4.2 | 7.9 | 26.9 | 52.2 | 9.3 | 17.7 |
| Capital Expenditures | -- | -- | -- | -- | -- | -0.2 | 28.3 | 44.9 | 14.9 | 13.4 |

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 18, 2012.