June 2011

Responses to the Business Outlook Survey suggest that regional manufacturing activity weakened in June. The survey’s indicators for activity and new orders turned negative this month, while indicators for shipments and employment fell but remained slightly positive. Indicators for prices show a continuing trend of moderating price pressures. The broadest indicator of future activity fell sharply in June, recording its lowest reading in 31 months.

**Indicators Suggest Weakening Business**

The survey’s broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from 3.9 in May to -7.7, its first negative reading since last September (see Chart). The demand for manufactured goods, as measured by the current new orders index, showed a similar decline: The index fell 13 points and recorded its first negative reading since last October. The current shipments index fell just 3 points but remained slightly positive. Firms reported declines in inventories and unfilled orders, and shorter delivery times.

Firms’ responses suggested little overall improvement in the labor market this month. The current employment index remained positive for the ninth consecutive month, but only 14 percent of the firms reported an increase in employment, while 10 percent reported a decline. Only slightly more firms reported a longer workweek (14 percent) than reported a shorter one (12 percent) and the workweek index was down only slightly from May.

**Price Pressures Show Moderation**

Indexes for prices paid and prices received declined from May and continue a trend of moderating price pressures in recent months. The prices paid index declined sharply, by 22 points this month. Still, 37 percent of the firms reported higher prices for inputs this month, and 10 percent reported a decline. On balance, firms reported a slight rise in prices for manufactured goods: 17 percent reported higher prices for their own goods this month; 12 percent reported price reductions. The prices received index decreased 12 points, its second consecutive monthly decline.

**Six-Month Indicators Fall Sharply Again**

The future general activity index decreased 14 points this month and has now dropped 61 points over the last three months (see Chart). The indexes for future new orders and shipments also declined, decreasing 9 and 14 points, respectively. The index for future employment fell 17 points and has declined 32 points in the last two months. Still, slightly more firms expect to increase employment over the next six months (21 percent) than expect to decrease employment (16 percent).

In special questions this month, firms were asked about recent cost increases for energy and raw materials and the nature of their pricing since the beginning of the year. Forty-seven percent of the firms indicated they had increased base prices since the beginning of the year, although 54 percent said they have been unable to pass on cost increases. Moreover, 19 percent have instituted surcharges, and 14 percent have price escalation clauses covering cost increases. Respondents also indicated that a large percentage of

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

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their suppliers have instituted surcharges covering recent cost increases: 71 percent of the firms reported surcharges for transportation, 36 percent for commodities, and 36 percent for energy. Thirty-four percent of the firms indicated that surcharges and/or escalation clauses have always been an important element of their own pricing.

Summary

According to respondents to the June Business Outlook Survey, the region’s manufacturing sector weakened this month. The survey’s broad indicators for general activity and new orders suggested slight declines, while indicators for shipments and employment suggested only slight growth. Fewer firms cited input price pressures this month, and fewer firms reported higher prices for their own manufactured goods. The broadest indicators for future activity continued to decline and are now at their lowest reading in over two years.

Special Questions (June 2011)

1. Since the beginning of the year, how have you passed on cost increases (for energy and other raw materials) to your customers?
   - We have been unable to pass on cost increases to our customers. 53.9%
   - We have increased our base prices. 47.2%
   - We have instituted price surcharges. 19.1%
   - We have existing contracts that include price escalation clauses covering increased costs. 13.5%
   - NA 0.0%

2. Have any of your suppliers instituted surcharges and for what costs?
   - Transportation 70.8%
   - Commodities 36.0%
   - Energy 36.0%
   - Other 6.7%
   - NA 15.7%

3. Looking forward, how would you characterize surcharges and/or escalation clauses relative to your traditional pricing structure?
   - It is unlikely that we will ever institute surcharges or cost escalation clauses. 38.2%
   - These have always been an important element of pricing. 33.7%
   - Escalation clauses incorporating price adjustments are more likely to be used in the future. 23.6%
   - Surcharges are more likely to be used in the future. 16.9%
   - We are considering instituting surcharges for the first time. 3.4%
   - NA 5.6%

*Percentages may add to more than 100% due to respondents having more than one answer for the same question.