



BUSINESS OUTLOOK

SURVEY

August 2004

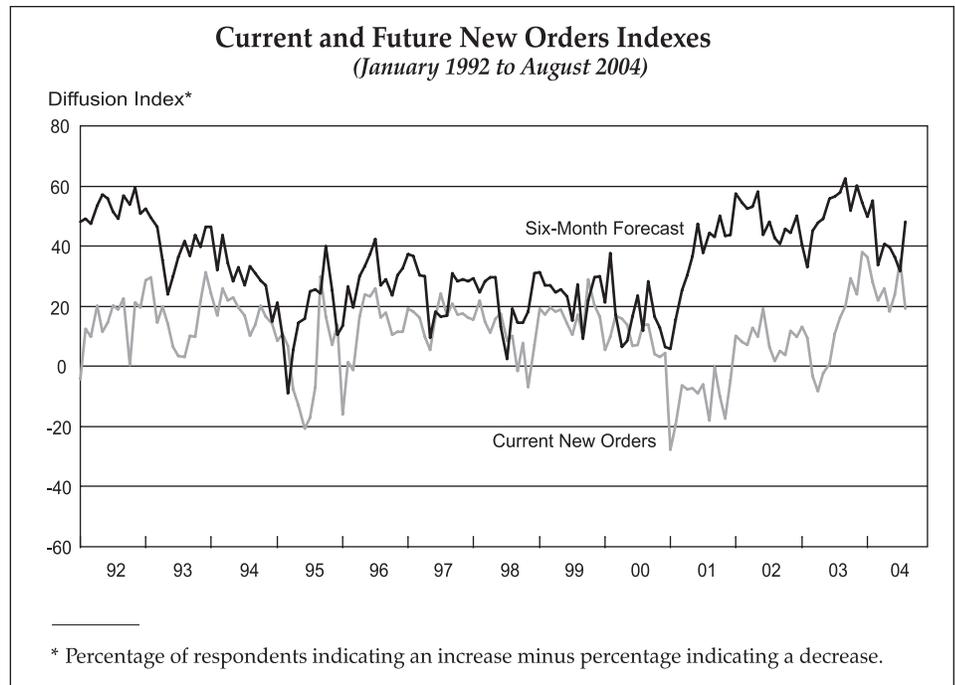
Activity in the region's manufacturing sector continues to expand, according to firms surveyed for this month's *Business Outlook Survey*. Most of the survey's broad indicators of activity, however, suggest a more moderate pace of growth than in July. Indicators for new orders, shipments, and employment remained positive but fell from their readings in July. Firms continue to report a rise in prices for inputs and for their own finished goods. Despite the decline in the survey's indicators for current activity, expectations for general growth over the next six months remain very positive.

Pace of Growth Moderates

The diffusion index of current general activity, the broadest measure of manufacturing conditions, decreased from 36.1 in July to 28.5 in August, suggesting slower growth. The index has remained positive for 15 consecutive months. The new orders and shipments indexes also remained positive but fell back from their readings in July. The current new orders index fell notably, by 16 points (see Chart), to its lowest reading in three months. The current shipments index fell, but by a more modest nine points.

Corroborating the slower growth in the broad indicators, the indexes for both delivery times and unfilled orders fell this month. The delivery times index dropped below zero for the first time in seven months and fell 22 points from its July reading. The unfilled orders index fell 17 points.

The overall moderation in manufacturing is evident in responses about employment. The percentage of firms reporting increased employment this month (24 percent) was higher than the



percentage reporting lower employment (7 percent). Still, the employment diffusion index fell seven points. The average workweek index remained positive this month as well but fell four points from July's reading.

Price Indexes Are Higher Again

Survey responses suggest upward pressure on costs as well as on the prices of manufactured goods. Nearly 55 percent of the firms reported higher input prices this month, and only 1 percent reported lower prices. The prices paid diffusion index increased from 46.3 in July to 53.7, its highest reading in three months. Thirty-eight percent of the firms reported higher prices of their own manufactured goods this month; only 4 percent reported lower prices.

The prices received index was up slightly from July's reading, which was the highest since 1989.

Expectations for future prices inched higher again this month. The future prices paid index increased three points, and the future prices received index increased nine points. Both indexes have increased about 12 points over the past three months.

In special questions this month, firms were asked about one aspect of cost increases since the beginning of the year—the rise in compensation per worker (see Special Questions). Seventy-eight percent of respondents indicated that compensation per worker had risen since the beginning of the year. Forty-eight percent indicated that compensation per worker had risen at the same rate as pro-

ductivity growth. The firms were nearly evenly divided with regard to whether compensation per worker had grown faster (26 percent) or slower (24 percent) than the rate of productivity. A larger percentage of firms attributed the rise in compensation per worker to higher benefit costs (31 percent) than higher wages (15 percent), while 52 percent indicated both factored equally.

Optimism Improves

Despite the moderation in current activity, overall expectations for the next six months remain optimistic and, in fact, improved notably this month. The future general activity index increased 16 points, rising from 36.3 in July to 52.7 this month, the highest reading in seven months. Nearly 55 percent of the manufacturing executives expect increases in business activity over the next six months; only 2 percent expect decreases. Other future indicators showed similar

improvement this month. The future new orders index increased 17 points, and the future shipments index increased 12 points (see Chart).

Expectations regarding future employment improved slightly this month. The future employment index also increased six points, and 32 percent of the manufacturers plan to add to their payrolls over the next six months.

Summary

Indicators continue to point to expansion of the region's manufacturing sector, although indicators for general activity, new orders, and shipments declined from their readings in July. Firms reported higher prices for inputs and for their own manufactured goods again this month. Despite evidence of moderation in the pace of growth this month, manufacturing executives expressed increased optimism about growth over the next six months.

Special Question (August 2004)

Has compensation per worker (wages plus benefits) risen at your firm since the beginning of 2004?

Yes	77.7%
No	20.5%
No Response	1.8%
Total	100.0%

If yes, is compensation per worker increasing [choice] the rate of productivity growth?

The same as	48.3%
Faster than	26.4%
Slower than	24.1%
No Response	1.2%
Total	100.0%

If compensation per worker is rising, what is the primary reason?

Higher benefit costs	31.0%
Higher wages	15.0%
Both equally	51.7%
No Response	2.3%
Total	100.0%

BUSINESS OUTLOOK SURVEY

Summary of Returns

August 2004

	Previous Diffusion Index	August vs. July			Diffusion Index	Previous Diffusion Index	Six Months from Now vs. August			Diffusion Index
		Increase	No Change	Decrease			Increase	No Change	Decrease	
What is your evaluation of the level of general business activity?	36.1	37.2	54.1	8.7	28.5	36.3	54.5	38.7	1.8	52.7
Company Business Indicators										
New Orders	35.3	36.3	44.8	17.2	19.2	31.6	55.0	33.6	6.8	48.1
Shipments	41.3	44.2	42.8	12.3	32.0	38.4	55.6	32.6	5.3	50.3
Unfilled Orders	19.4	17.6	63.0	15.5	2.1	4.0	29.7	54.5	12.3	17.4
Delivery Times	15.3	7.0	79.3	13.8	-6.8	-5.9	20.4	57.0	16.6	3.8
Inventories	4.1	22.3	57.0	20.6	1.7	2.7	28.3	41.9	23.9	4.4
Prices Paid	46.3	54.7	42.9	1.0	53.7	44.5	52.2	36.3	5.1	47.2
Prices Received	33.1	37.8	58.4	3.7	34.1	31.9	45.3	44.8	4.8	40.5
Number of Employees	24.6	23.9	69.5	6.6	17.2	20.9	32.2	54.3	5.5	26.6
Average Employee Workweek	12.3	15.1	75.4	7.2	8.0	4.3	22.5	65.3	4.4	18.2
Capital Expenditures	—	—	—	—	—	28.0	28.4	45.8	7.0	21.4

Notes:

- (1) Items may not add up to 100 percent because of omission by respondents.
- (2) All data 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, 2004.