



BUSINESS OUTLOOK SURVEY

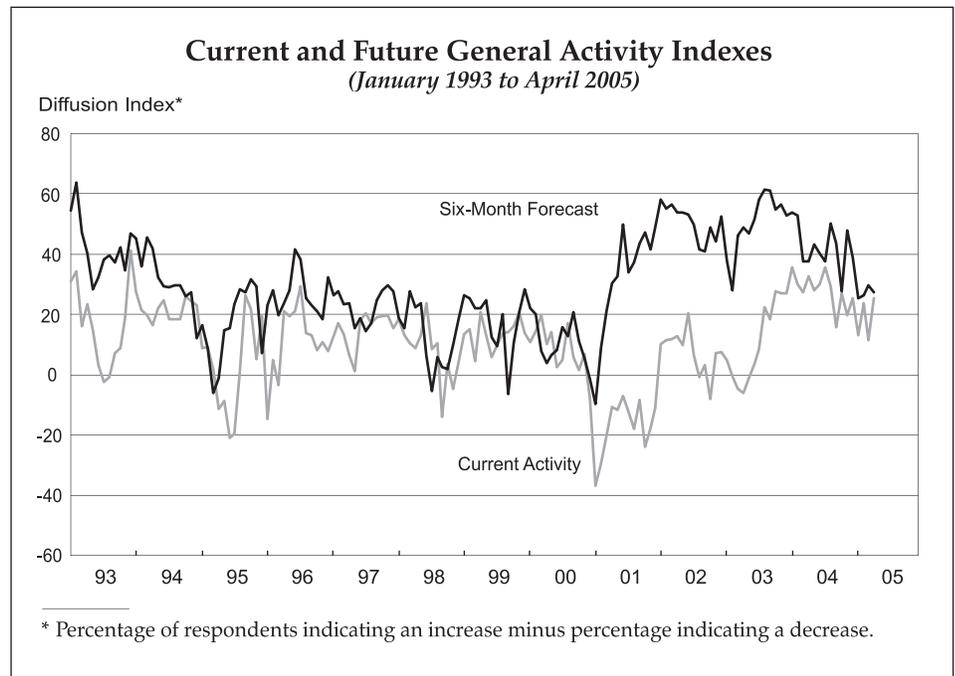
April 2005

Activity in the region's manufacturing sector continues to expand, according to firms surveyed for this month's *Business Outlook Survey*. Most indicators point to somewhat faster growth in April, with increases recorded in the indexes for general activity, new orders, shipments, and employment. After moderating over the past few months, indexes for the prices of inputs and finished goods rose notably. The region's manufacturing executives remain generally optimistic that growth will continue over the next six months.

Current Indicators Rise

The diffusion index of current activity, the broadest measure of manufacturing conditions, increased from 11.4 in March to 25.3 this month, rebounding from its lowest reading in 20 months (see Chart). The index has now remained positive for 23 consecutive months. More firms reported increases in activity (36 percent) than decreases (11 percent), with a large segment (54 percent) reporting no change from March. The new orders and shipments indexes both increased this month: the new orders index rose seven points, and the shipments index rose almost 15 points. Indicators for unfilled orders and delivery times changed little from March. The current inventory index rose nine points and is now positive for the first time in six months.

The increase in broad indicators of manufacturing activity this month was accompanied by an increase in the survey's employment indicators. The percentage of firms reporting increased employment (29 percent) was higher than that reporting lower employment (13 percent) for the 19th consecutive month. The current employment index increased seven points to its highest reading in three months, and the current workweek index increased 18



points to its highest reading in 14 months.

In special questions this month firms were asked about their current rate of capacity utilization compared with six months ago (see Special Questions). The results indicate that the average capacity utilization rate among the surveyed firms is currently about 78.5 percent, up about one percentage point from six months earlier. Forty-six percent of the surveyed firms plan to increase capacity in 2005; of these, the largest segment (45 percent) indicated that plant capacity would be increased 5 to 10 percent this year, and about 34 percent of the firms indicated capacity would grow more than 10 percent.

Price Pressures Are More Prevalent

Firms reported higher production costs this month, and after moderating over the past few months, the prices paid diffusion

index rose 21 points, to its highest reading in three months. Nearly 56 percent of firms reported higher prices for inputs this month, compared with 36 percent in March. Only 5 percent of the manufacturers reported decreases in their input prices.

Higher prices for final manufactured goods were also more widespread this month. Thirty-three percent of firms reported higher prices for their goods, and the prices received index increased 13 points, to its highest reading in six months.

Six-Month Outlook Remains Optimistic

Firms' outlook for the next six months remains generally optimistic, although the index for future activity fell slightly this month. The future general activity index decreased from 29.8 in March to 27.5. The index has remained relatively steady for

the past four months (see Chart). Other broad future indicators also showed small or moderate declines: the future new orders index fell one point, and the future

shipments index fell about eight points.

Firms' expectations for future employment remain generally optimistic. Thirty-one percent of the firms expect to add

workers over the next six months. The future employment index fell slightly (two points) from its reading in March. Firms, on balance, expect increases in the average workweek, and the future workweek index increased seven points. Firms' capital spending plans continue to show improvement. The future capital spending index increased for the third consecutive month and is now at its highest reading since February 2000.

Special Questions April 2005

1. Which of the following best characterizes your capacity utilization rate?

	%	%
	<u>Current</u>	<u>Six Months Ago</u>
Less than 60	8.9	9.0
60-65	7.6	10.3
65-70	11.4	11.5
70-75	12.7	19.2
75-80	13.9	9.0
80-85	10.1	9.0
85-90	13.9	10.2
90-95	11.4	9.0
<u>95-100</u>	<u>10.1</u>	<u>12.8</u>
Total	100.0	100.0
Estimated Average	78.5	77.4

2. Does your company have plans to increase capacity at your plant in 2005?

Yes 45.8% No 54.2% **Total 100.0%**

If yes, by how much?

0-5%: 21.1% 5-10%: 44.7% 10-15%: 18.4% >15%: 15.8% **Total: 100.0%**

Summary

Indicators of current activity improved this month and continue to reflect growth in the region's manufacturing sector. Indexes for general activity, new orders, shipments, and employment all increased from their readings in March. Responses from this month's survey suggest that input price pressures were greater this month, and more firms reported higher prices for their final manufactured goods. Firms expect continued growth in their business over the next six months, with almost one-third indicating that they will increase employment. Firms' outlook for future capital spending continues to improve.

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Summary of Returns April 2005

	April vs. March					Six Months from Now vs. April				
	Previous Diffusion Index	Increase	No		Diffusion Index	Previous Diffusion Index	Increase	No		Diffusion Index
			Change	Decrease				Change	Decrease	
What is your evaluation of the level of general business activity?	11.4	35.8	53.7	10.5	25.3	29.8	40.8	43.7	13.3	27.5
Company Business Indicators										
New Orders	13.2	37.3	45.8	16.9	20.3	35.3	49.1	33.1	15.2	33.9
Shipments	14.7	44.0	40.7	14.6	29.4	39.4	48.2	32.2	16.4	31.8
Unfilled Orders	-2.1	14.8	66.4	18.6	-3.8	5.8	22.7	56.4	18.8	3.9
Delivery Times	3.5	12.9	74.1	7.9	5.1	0.1	19.0	67.1	12.2	6.8
Inventories	-5.3	22.0	58.5	18.6	3.4	1.0	20.4	48.5	28.9	-8.5
Prices Paid	29.7	55.9	38.8	5.4	50.5	42.2	58.0	28.9	7.4	50.6
Prices Received	15.3	33.2	61.6	5.2	28.0	22.4	43.0	50.2	6.0	37.0
Number of Employees	10.1	29.3	57.7	12.5	16.8	21.5	30.5	54.6	11.3	19.2
Average Employee Workweek	2.6	23.1	71.0	2.7	20.4	5.3	20.7	66.6	8.0	12.7
Capital Expenditures	—	—	—	—	—	30.4	37.8	42.7	5.8	32.1

Notes:

- (1) Items may not add up to 100 percent because of omission of 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 April 15, 2005.