



# BUSINESS OUTLOOK SURVEY

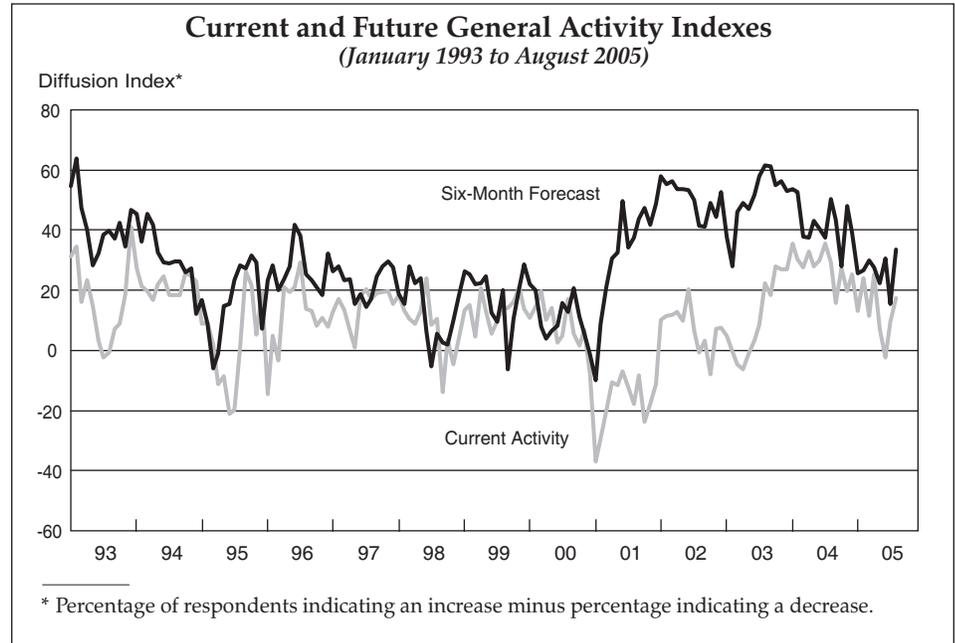
August 2005

Activity in the region's manufacturing sector continued to expand in August, at a somewhat faster pace than in July. Indicators for general activity, new orders, shipments, and employment remained positive and increased from their readings last month. Firms continued to report a rise in prices for inputs, but prices for their own manufactured goods held relatively steady. Also this month, the region's manufacturing executives were significantly more optimistic about future activity than they were in July.

## Most Current Indicators Rise

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from 9.6 in July to 17.5 in August. The eight-point gain brings the index to its highest reading since April (see Chart). Thirty-six percent of the firms reported increases in activity this month, compared to 28 percent last month. Other broad indicators showed improvement. The new orders index increased nearly 15 points, to its highest reading since April. The current shipments index increased five points. Unfilled orders rose this month: the unfilled orders index increased 16 points, its first positive reading in eight months. The delivery time and inventory indexes also increased.

The improvement in manufacturing activity was accompanied by a slight increase in the employment index this month. The employment index increased three points, to just above its average over the previous three



months. The percentage of firms reporting increased employment (21 percent) was higher than that of firms reporting lower employment (15 percent) for the 23rd consecutive month. On balance, the workweek was mostly steady this month.

## Manufacturers' Prices Nearly Steady Despite Higher Costs

Despite continued cost pressures, prices for firms' own manufactured goods were essentially steady this month. Only slightly more firms reported higher prices for their own manufactured goods (12 percent) than reported lower prices (9 percent), and 78 percent of the firms indicated steady prices. The current prices received index fell from 12.0 to 3.0, its lowest reading since August 2003.

Despite the moderation in the prices received for their own manufactured goods, firms reported higher production costs. Thirty-three percent of firms reported higher input costs this month. The prices paid diffusion index, which decreased one point, remains near the 21-month low it reached in June.

In a special question this month, firms were asked about their expectations of price increases for selected inputs over the remainder of this year. Seventy-six percent of the manufacturers expect further increases in energy costs, 65 percent expect price increases for raw materials, and 52 percent expect increases for intermediate goods. Firms expect energy prices to increase an average of 5.4 percent over the remainder of the year, raw materials 2.8 percent, and intermediate goods 2 percent.

### Six-Month Forecasts More Optimistic

Overall expectations for the next six months remain optimistic and improved markedly from July. The index for future activity increased from 15.3 in July to 33.4, its highest reading since December (see Chart). Other future indicators also increased this month: the future shipments index rose 10 points, and the future new orders index rose eight points. Manufacturing executives were slightly more optimistic about adding to their payrolls over the next six months: the future employment index increased seven points. Nearly 29 percent of the firms indicated plans to increase employment over the next six months; 16 percent plan to decrease employment. Firms, on balance, expect increases in the average workweek; the future workweek index rose 15 points.

### Summary

Indicators continue to point to an expansion of the region's manufactur-

ing sector, as most indicators of current performance increased from their July readings. Firms continued to report higher prices for inputs, but prices for their own manufactured goods were nearly steady this month. Firms expect continued price increases for energy,

raw materials, and intermediate goods over the next six months. Future indicators for general activity and employment, up notably this month, point to expectations among the region's manufacturers of continued growth in their business over the next six months.

### Special Question (August 2005)

For the remainder of 2005, what change in prices do you anticipate for energy, raw materials, and intermediate goods?

Percentage of firms expecting:	Energy %	Raw Materials %	Intermediate Goods %
Increase	75.6	65.1	51.9
Decrease	1.2	7.2	3.7
No Change	23.2	27.7	44.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>
Average Change Expected*	5.4	2.8	2.0

\* Average change expected for those firms that provided a magnitude of change.

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#### Summary of Returns August 2005

	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?	9.6	36.3	45.0	18.8	17.5	15.3	45.6	38.8	12.2	33.4
Company Business Indicators										
New Orders	5.0	38.7	39.9	18.9	19.8	22.8	43.2	42.3	12.7	30.5
Shipments	12.4	35.7	46.5	17.8	17.8	22.5	48.2	29.6	15.3	32.9
Unfilled Orders	-9.2	21.0	64.4	13.8	7.2	-2.0	21.5	55.0	22.8	-1.3
Delivery Times	-1.9	15.1	70.4	14.2	0.9	-2.0	13.0	62.1	21.3	-8.3
Inventories	-10.9	14.9	62.9	22.2	-7.3	-20.0	21.7	49.0	29.3	-7.6
Prices Paid	26.5	33.0	58.4	7.1	25.9	43.0	47.0	47.5	3.4	43.6
Prices Received	12.0	12.4	78.1	9.4	3.0	24.4	36.7	53.9	6.7	30.1
Number of Employees	3.4	20.7	64.8	14.5	6.3	5.5	28.7	50.0	16.2	12.6
Average Employee Workweek	6.0	14.6	71.9	13.5	1.0	-3.1	19.6	68.0	7.4	12.3
Capital Expenditures	—	—	—	—	—	12.3	28.2	40.6	10.5	17.6

#### 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 August 16, 2005.