



BUSINESS OUTLOOK

SURVEY

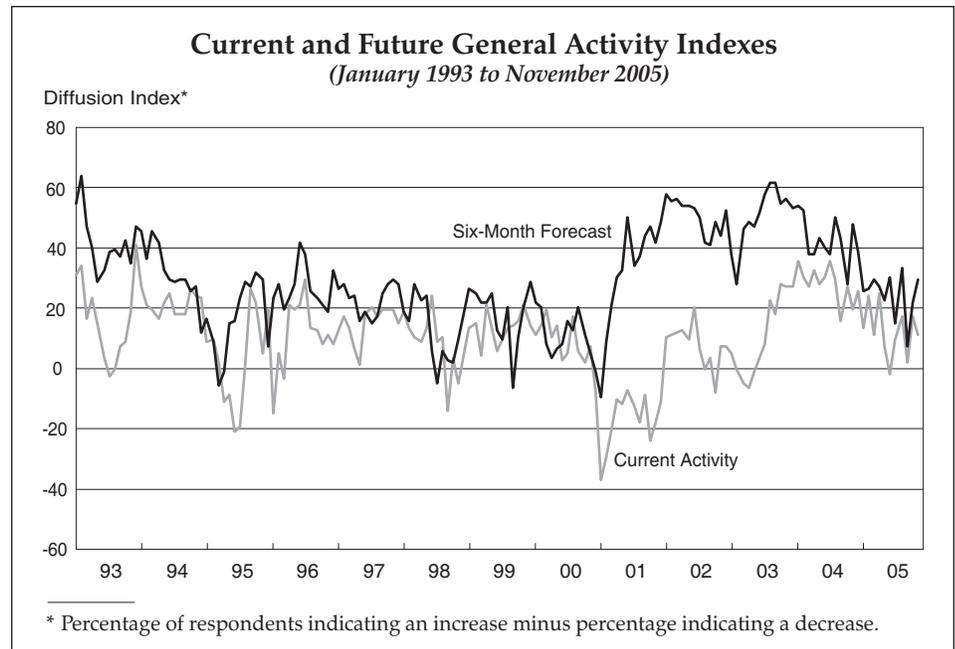
November 2005

Activity in the region's manufacturing sector continues to expand, according to firms surveyed for this month's *Business Outlook Survey*. Although indicators for general activity and new orders fell from their October readings, they remain near their average levels this year. Firms continued to report rising prices for inputs, and more than one-third reported receiving higher prices for their own manufactured goods. The region's manufacturing executives were somewhat more optimistic about future growth this month than in October.

Current Activity Indexes Suggest Continued Growth

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from 17.3 in October to 11.5 this month (see Chart). Twenty-three percent of the firms reported increases in activity (down six points from October); 12 percent reported decreases. The new orders index also had a six-point decline this month. Nearly 32 percent of the firms, however, reported increases in new orders. The shipments index rose four points. On balance, unfilled orders declined slightly, but delivery times continued to lengthen.

Continued expansion in manufacturing is evident in replies to questions about employment and hours worked. The percentage of firms reporting increased employment (20 percent) was higher than that of firms reporting lower employment (1 percent). The current employment index rose two points. On



balance, the workweek was higher this month: more firms reported a longer workweek (18 percent) than a shorter one (10 percent).

Higher Prices Reported

Firms reported higher production costs again this month: 58 percent reported higher input prices; however, this was down from 68 percent in October. The prices paid index remains at a high level but fell 11 points.

Higher prices for final manufactured goods were also widespread again this month: 35 percent of the firms reported higher prices for their goods, up slightly from 33 percent last month. The prices received index, at 32.5, was virtually unchanged from October. Expectations regarding future price in-

creases remain elevated: 59 percent of the firms expect input price increases over the next six months; 45 percent expect increases in prices of their own manufactured goods.

Six-Month Forecasts Improve

Expectations for future manufacturing growth showed improvement this month. The index for future activity increased from 22.0 in October to 29.2 this month, the highest reading in three months (see Chart). Other broad indicators of future growth showed similar increases: the future new orders index increased nine points and the future shipments index increased seven points. The future employment index increased slightly from October: more than twice as many firms antici-

pate increasing payrolls (25 percent) as expect to decrease them (12 percent). The future workweek index rose eight points.

In a special question this month, firms were asked about their expectations of percentage changes in costs by category for 2006 (see Special Question). The greatest increases in expected costs are for energy: 38 percent of the firms expect energy cost increases of more than 10 percent next year; 37 percent expect increases of between 5 and 10 percent. Seventy-nine percent of the firms expect raw material costs to increase next year; half expect a rise of more than 5 percent. Eighty-seven percent expect wages to increase less than 5 percent. Nearly 80 percent expect health benefit costs to rise more than 5 percent; 33 percent expect a rise of more than 10 percent.

Summary

Indicators continue to reflect growth in the manufacturing sector. Indexes for general activity and new orders

Special Question (November 2005)

What percentage change in costs do you expect for the following categories in 2006?

	% Energy	% Other Raw Materials	% Intermediate Goods	% Wages	% Health Benefits	% Nonhealth Benefits
Increase more than 10%	38.1	8.3	4.9	0.0	32.9	2.4
Increase 5-10%	36.9	41.7	23.5	1.2	47.1	16.6
Increase less than 5%	7.1	28.6	42.0	87.0	12.9	39.3
Stay at current levels	5.9	14.2	27.2	9.4	3.5	39.3
Decline less than 5%	3.6	3.6	1.2	1.2	2.4	2.4
Decline 5-10%	4.8	2.4	1.2	1.2	0.0	0.0
Decline more than 10%	3.6	1.2	0.0	0.0	1.2	0.0
Total	100	100	100	100	100	100

remained positive but declined slightly this month. Indexes for shipments and number of employees increased from their readings in October. Responses from this month's survey suggest that input price pressures continued this month, and over one-third of the firms

reported higher prices for their final manufactured goods. Firms expect continued growth in their businesses over the next six months, with one-fourth indicating that they will increase employment.

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Summary of Returns November 2005

	Previous Diffusion Index	November vs. October			Diffusion Index	Six Months from Now vs. November			Diffusion Index	
		Increase	No Change	Decrease		Previous Diffusion Index	Increase	No Change		Decrease
What is your evaluation of the level of general business activity?	17.3	23.3	64.9	11.8	11.5	22.0	39.7	43.8	10.6	29.2
Company Business Indicators										
New Orders	18.6	31.9	48.7	19.2	12.7	29.5	51.1	29.5	13.0	38.1
Shipments	19.5	36.1	49.7	12.8	23.4	26.8	47.1	35.3	13.5	33.5
Unfilled Orders	0.8	19.6	51.8	27.4	-7.8	1.7	24.1	55.7	13.5	10.6
Delivery Times	9.6	20.9	67.2	11.9	9.0	5.0	16.2	68.5	10.7	5.5
Inventories	-4.5	15.4	67.8	15.6	-0.1	-2.5	19.9	51.3	21.9	-2.1
Prices Paid	67.6	58.1	39.4	1.2	56.8	61.0	59.4	33.5	1.9	57.5
Prices Received	32.6	34.8	63.0	2.3	32.5	49.3	45.2	49.6	2.6	42.6
Number of Employees	17.0	20.3	78.6	1.1	19.1	11.3	24.7	57.1	12.3	12.3
Average Employee Workweek	11.1	18.2	70.3	9.5	8.7	4.0	23.2	59.4	11.3	11.8
Capital Expenditures	—	—	—	—	—	18.1	27.9	49.1	3.7	24.2

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 November 14, 2005.