



BUSINESS OUTLOOK SURVEY

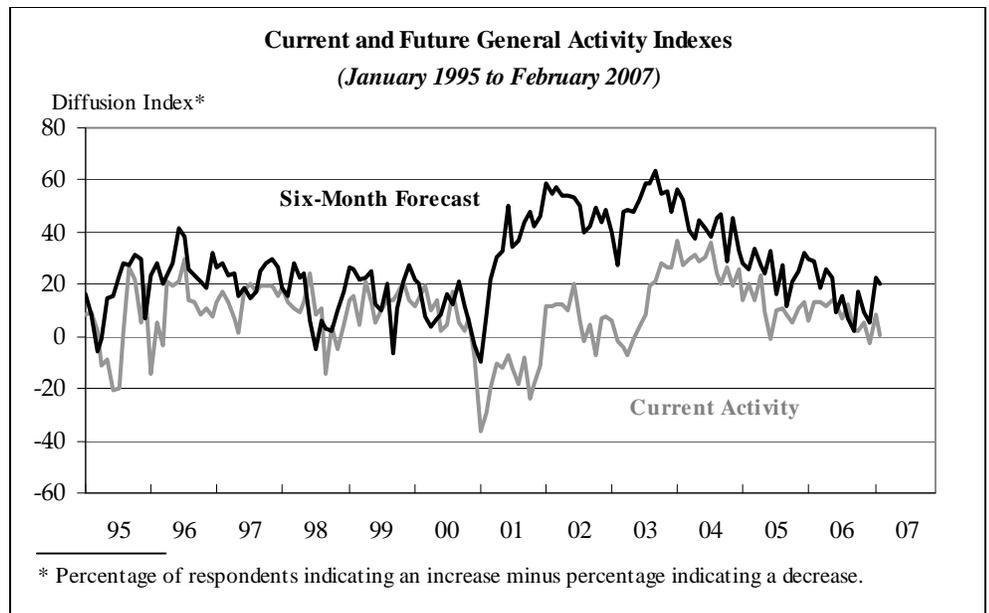
February 2007

Activity in the region's manufacturing sector was mostly steady this month, according to firms polled for the *Business Outlook Survey*. Indicators for general activity, new orders, shipments, and employment were close to zero this month, suggesting little change from January. The outlook for growth diminished somewhat in February, although manufacturing executives still expect conditions to improve over the next six months.

Indicators Suggest Weakness

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from 8.3 in January to 0.6 this month (see Chart). This month, 24 percent of the firms reported increased activity; 23 percent reported decreased activity. Demand for the output of the firms surveyed has shown little growth in recent months: The new orders index declined almost two points, from 1.3 in January to -0.5, and has now been negative in three of the past four months. The shipments index, which increased 10 points in January, declined 22 points this month, reaching its lowest reading since September. Indexes for delivery times and unfilled orders remained negative, indicating shorter delivery times and a decline in unfilled orders.

Overall employment in the manufacturing sector was steady this month, reflecting the lack of growth in the general indicators. Sixty-two percent of firms reported steady employment levels in February, and the percentage of firms



reporting declines and those reporting increases was the same: 19 percent. The current employment index declined eight points from its reading in January. Firms reported fewer hours worked: The average workweek index dropped from 1.8 in January to -12.9.

Price Pressures Remain Moderate

On balance, area manufacturers reported higher costs again this month. Thirty-two percent reported higher input prices, and 16 percent reported lower input prices (the highest share of firms reporting price decreases in five years). Although the prices paid index increased four points this month, the index has generally trended down over the previous six months (see Chart 2).

The prices received index edged two points lower this month. The majority of manufacturers (65 percent) reported

steady prices, 20 percent reported higher prices, and 11 percent reported lower prices.

Forecasts Are Optimistic; Exports Are Expected to Increase

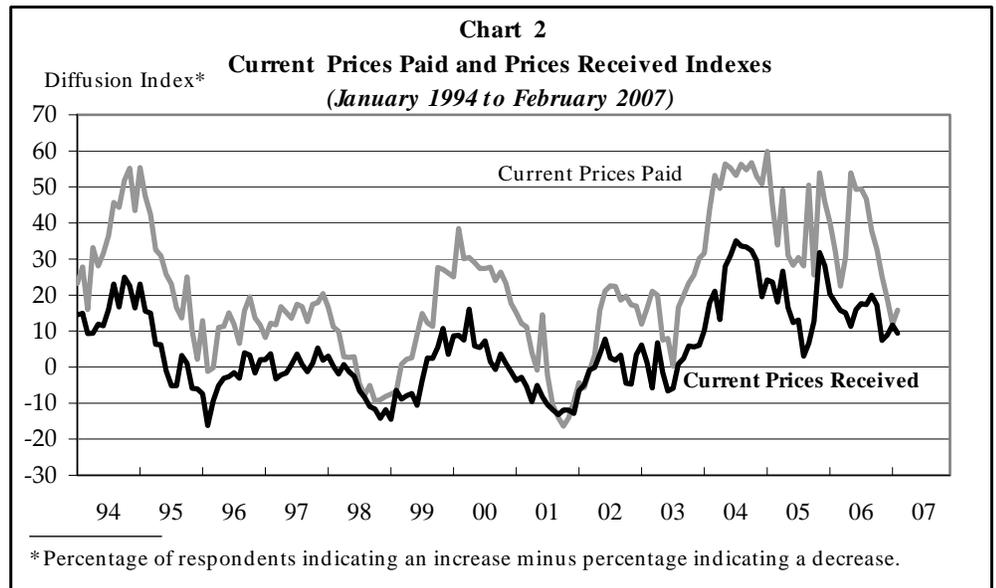
The outlook for manufacturing growth over the next six months showed only a slight moderation this month, following a marked improvement in January. The future general activity index fell only two points, and the other six-month indicators showed a mixed pattern: The index for future new orders increased four points, but shipments decreased five points. The future employment index decreased three points; 29 percent of the firms expect to increase employment over the next six months, down from 36 percent in January.

In special questions this month, firms were asked about the share of their prod-

ucts that are exported (see Special Questions). Thirty-six percent of the firms indicated that the share of exported products had increased in the past year, while only 3 percent said it had decreased. Thirty percent of the firms expect the share of exports to increase over the next year; 1 percent expect it to decline. The average percent of total output exported among the responding manufacturers was slightly more than 10 percent.

Summary

Overall activity in the region's manufacturing sector was mostly steady this month, and indicators for shipments, new orders, and employment suggest no growth. Firms continue to report higher prices for inputs and for their own manufactured goods, but the survey's price indexes remain at relatively low levels. The manufacturers' outlook remains optimistic, but most of the survey's six-month indicators were lower this month than in January.



Special Questions (February 2007)

1. Over the past year, has your share of exported products:

Increased	36.0%
Decreased	2.7%
Stayed the same	68.3%
2. Over the remainder of this year, do you expect the share of products you export to:	
Increase	29.9%
Decrease	1.3%
Stay the same	68.8%

BUSINESS OUTLOOK SURVEY <i>(February 2007)</i>	February vs. January					Six Months from Now vs. February				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	8.3	23.8	51.1	23.1	0.6	22.4	37.7	40.3	17.4	20.3
Company Business Indicators										
New Orders	1.3	31.1	37.3	31.6	-0.5	23.4	45.0	35.2	17.8	27.2
Shipments	23.9	25.6	47.3	23.8	1.7	28.5	39.9	40.0	16.7	23.2
Unfilled Orders	-15.4	17.0	54.0	27.6	-10.5	-4.8	14.0	56.8	24.2	-10.2
Delivery Times	-7.1	7.1	78.5	13.4	-6.3	-9.3	9.9	58.2	23.9	-14.0
Inventories	0.4	18.9	58.4	20.8	-1.9	-8.8	16.8	52.9	23.8	-6.9
Prices Paid	11.9	32.2	49.5	16.4	15.8	30.1	37.8	43.2	12.3	25.6
Prices Received	11.6	20.4	65.3	11.1	9.4	31.1	25.3	53.3	13.7	11.6
Number of Employees	7.9	18.6	61.5	19.0	-0.4	20.2	28.5	54.9	11.5	17.0
Average Employee Workweek	1.8	6.8	73.2	19.7	-12.9	6.7	18.7	60.9	15.9	2.8
Capital Expenditures	--	--	--	--	--	24.0	29.6	41.7	10.9	18.7

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 February 13, 2007.