



BUSINESS OUTLOOK SURVEY

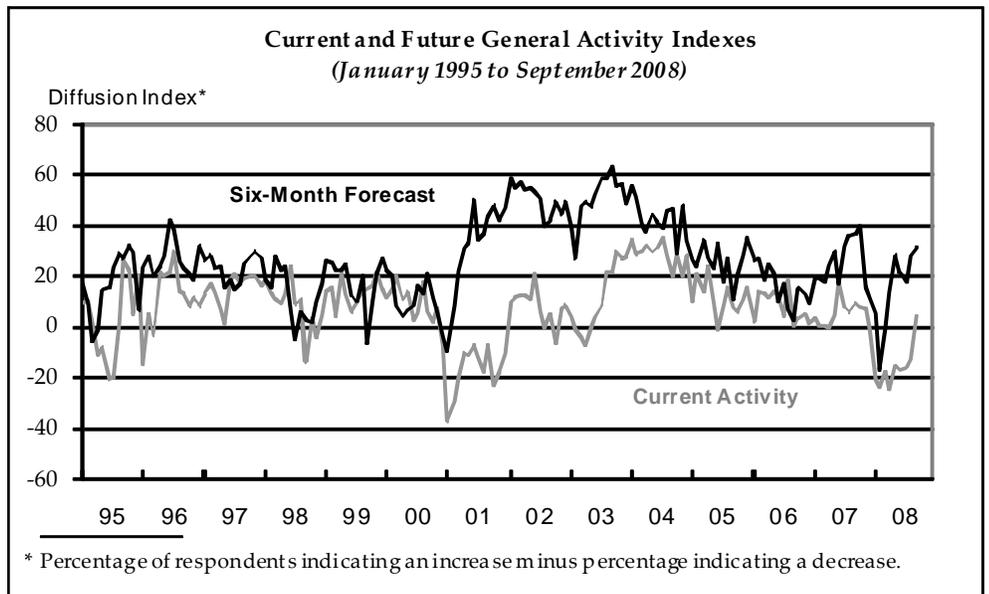
September 2008

The region's manufacturing sector showed some signs of improvement this month, according to firms polled for the September *Business Outlook Survey*. Indexes for general activity, new orders, and shipments improved from their readings in August. Cost pressures remain but were notably less widespread this month. The percentage of firms indicating higher prices for their own products also declined this month. Most of the survey's indicators of future activity moved higher this month, suggesting that the region's manufacturing executives expect growth in their sector over the next six months.

Current Indicators Show Improvement

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, increased from -12.7 in August to 3.8 this month (see Chart). This is the first positive reading for the index since last November. Other broad indicators edged higher this month. Demand for manufactured goods, as represented by the survey's new orders index, improved significantly, increasing 18 points, to a positive reading of 5.6. The survey's shipments index increased six points and is now at 2.6. Indexes for unfilled orders and delivery times remained negative, however.

Indicators for employment and hours worked remained negative, suggesting little improvement from August. The current employment index was virtually unchanged and remained slightly negative. The percentage of firms reporting a decrease in employment (19 percent) was slightly greater



than the percentage reporting an increase (18 percent). The average workweek index moved four points higher but remained negative for the ninth consecutive month.

Price Pressures Moderate

Price pressures eased notably this month. Although 43 percent of the firms reported paying higher prices for inputs, this was down from 65 percent in August and 77 percent in July. Eleven percent of the firms reported paying lower prices for inputs this month. The prices paid index fell 26 points; this follows an 18-point decline in August. The percentage of firms reporting higher prices for their own manufactured goods also declined this month, falling from 35 percent in August to 26 percent in September. The prices received index dropped 12 points, to its lowest reading since December.

Six-Month Forecasts Improve

Area manufacturers expect improvement in business conditions over the next six months. The future general activity index increased from 27.6 in August to 30.8 this month, its highest reading since last October (see Chart). Indexes for future new orders and shipments both increased for the third consecutive month. On balance, firms expect an increase in employment over the next six months: The percentage of firms that expect to increase employment (26 percent) exceeds the percentage expecting to decrease it (11 percent).

In this month's special questions, manufacturers were asked about their total production for the third quarter (ending in Sep-

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tember) and expectations for the fourth quarter (see Special Questions). Firms were nearly evenly divided with respect to the question about third-quarter production: 42 percent expect an overall decline in production for the quarter; 40 percent expect an overall increase. Moreover, the firms were concentrated at two extremes: nearly 27 percent of the firms said production would decline by more than 4 percent in the third quarter, and 19 percent indicated that production would increase more than 4 percent. For the upcoming fourth quarter, more firms expect increases in production (41 percent) than expect declines (25 percent).

Summary

The manufacturing sector showed some improvement in September. For the first time since last November, more firms reported increases in activity, new orders, and shipments than reported declines. Overall employment showed essentially no improvement, however. Cost pressures remain widespread, but fewer firms reported increases in input prices and prices paid for

their own manufactured goods this month. Manufacturers were slightly more optimistic about the outlook for the future in September,

and most of the survey's six-month indicators have shown improvement over the past two months.

Special Questions (September 2008)		
1. How do you expect your firm's total production for the third quarter to compare with that of the second quarter?		
	%	Subtotals
Decline of more than 4%	26.8	41.8
Decline of 3-4%	4.5	
Decline of 2-3%	4.5	
Decline of 1-2%	1.5	
Decline of less than 1%	4.5	
Increase of less than 1%	1.5	40.3
Increase of 1-2%	9.0	
Increase of 2-3%	9.0	
Increase of 3-4%	1.5	
Increase of more than 4%	19.3	
No change	17.9	17.9
Totals	100.0%	100.0%
2. For the upcoming fourth quarter, what growth do you expect for production at your plant compared to the third quarter?		
Significant deceleration	5.9	25.0
Some deceleration	19.1	41.2
Some acceleration	33.8	
Significant acceleration	7.4	
No change	33.8	33.8
Totals	100.0%	100.0%

BUSINESS OUTLOOK SURVEY September 2008	September vs. August					Six Months from Now vs. September				
	<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?	-12.7	28.0	46.3	24.2	3.8	27.6	49.0	32.5	18.2	30.8
Company Business Indicators										
New Orders	-11.9	32.4	40.7	26.8	5.6	39.4	52.0	33.7	7.8	44.2
Shipments	-3.3	31.0	39.5	28.4	2.6	36.3	49.1	36.9	5.9	43.1
Unfilled Orders	-8.7	14.2	59.1	24.4	-10.2	7.4	20.6	60.5	13.0	7.6
Delivery Times	-9.9	9.7	75.4	14.8	-5.1	3.5	11.9	74.7	11.0	0.9
Inventories	-6.6	17.1	42.1	40.0	-22.9	-5.0	17.3	49.7	32.0	-14.7
Prices Paid	57.5	42.8	44.9	11.3	31.5	51.9	54.9	32.0	13.1	41.7
Prices Received	27.0	25.8	62.6	10.3	15.5	28.1	41.0	47.0	12.0	28.9
Number of Employees	-1.1	18.2	59.6	19.2	-0.9	13.5	26.4	61.2	11.0	15.5
Average Employee Workweek	-11.8	17.1	56.5	24.5	-7.4	13.5	24.3	64.1	11.7	12.6
Capital Expenditures	--	--	--	--	--	9.1	31.3	49.8	12.7	18.6

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 September 15, 2008.