



# BUSINESS OUTLOOK SURVEY

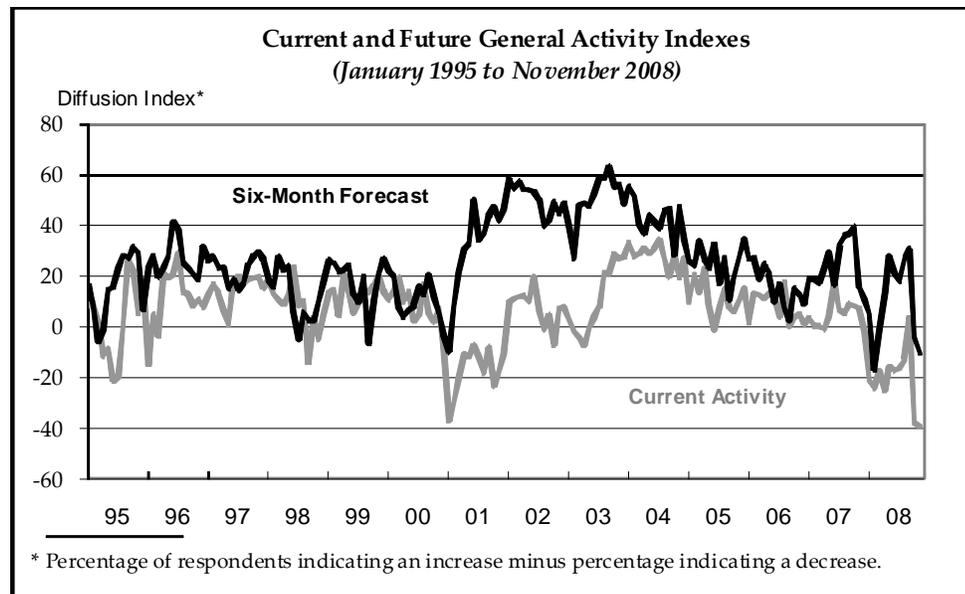
## November 2008

Conditions in the region's manufacturing sector continued to deteriorate, according to firms polled for this month's *Business Outlook Survey*. Most broad indicators declined again in November, following sharp decreases in October. Input price pressures, which had been moderating over recent months, showed a marked decrease in November. Also, for the first time since 2003, more firms reported declines in the prices of their own manufactured goods than reported increases. Most of the survey's indicators of future activity slid further into negative territory this month, suggesting that the region's manufacturing executives expect continued declines over the next six months.

### Current Indicators Show Declines

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from -37.5 in October to -39.3 this month. This index, which fell a dramatic 41 points last month, is now at its lowest level since October 1990. Evidence of weakness was also seen in the other broad indicators this month. Demand for manufactured goods, as represented by the survey's new orders index, decreased one point, to a reading of -31.4. The survey's shipments index held steady at -18.8; this follows a decrease of 21 points last month. Indexes for unfilled orders and delivery times remained significantly negative and were little changed from October.

The current employment index fell notably this month, declining seven points, to -25.2. The percentage of firms reporting a decrease in employment (38 percent) was greater than the percentage reporting an



increase (13 percent). The average workweek index fell one point, and firms reporting shorter work hours outnumbered those reporting longer hours by 3 to 1.

### Prices Fall This Month

Consistent with overall weakness, price pressures eased notably this month. Forty percent of the firms reported paying lower prices for inputs; only 9 percent reported paying higher prices (compared to 30 percent in October). The prices paid index fell 38 points and registered its first negative reading since July 2003. The index has now fallen a dramatic 106 points over the past four months. Price increases for firms' own manufactured goods also declined this month: The percentage of firms reporting lower prices for their own manufactured goods (27 percent) was higher than the percentage reporting higher prices (12 percent). The prices received index fell 21 points, also its first negative reading since July 2003.

### Six-Month Indicators Deteriorate

Area manufacturers' expectations for future conditions deteriorated further this month. The future general activity index decreased from -4.2 in October to -10.4 this month (see Chart). Indexes for future new orders and shipments both fell three points, after declines of 48 and 55 points last month, respectively. On balance, firms expect decreases in employment over the next six months: The future employment index fell nine points and was negative for the second consecutive month.

In this month's special questions, manufacturers were asked to provide a forecast for expected fourth-quarter production compared to the third quarter and whether, among other things, the increase or decrease reflects a change in business conditions (see

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Special Questions). Sixty-six percent of the firms indicated that production would decrease in the fourth quarter; 52 percent said the expected decrease was the result of a change in business conditions. The firms were also asked about changes in employment expected over the next six months. Sixty-nine percent of firms expect employment declines over the next six months. Layoffs were the most frequently cited method of achieving the planned reductions (51 percent of these firms).

### Summary

According to the respondents to November's survey, manufacturing experienced continued declines this month. Indicators for activity, new orders, shipments, and employment were all substantially negative. Firms also reported lower prices for inputs, and about one in four firms reported price decreases for their own products. Indicators for future business conditions fell again this month, suggesting that the region's manufacturing executives expect continued declines over the next six months.

<b>Special Questions (November 2008)</b>			
1. What change, if any, do you anticipate in your firm's production during the fourth quarter of 2008 compared to the third quarter?			
	All firms	Firms attributing expected change to: (% of all reporting firms)	
		Business conditions	Seasonal factors
Expect decrease	66.3%	51.5%	14.7%
No change	10.5%	1.1%	0.0%
Expect increase	14.7%	6.3%	6.3%
NR	8.5%		
2a. What percentage change in employment do you expect over the next six months?			
Firms expecting a decrease	69.2%		
Firms expecting no change	7.7%		
Firms expecting an increase	23.1%		
Mean growth rate expected	-5.6%		
Median growth rate expected	-3.5%		
2b. If you anticipate a decrease in employment, which of the following are planned at your plant?			
	Percent of all reporting firms*:		
Layoffs	51.3%		
Reductions by attrition	37.2%		
Reduced work hours	32.1%		
Discharges	15.4%		
Reductions in contract labor	12.8%		
*Totals add to more than 100 percent because firms could choose more than one category.			

<b>BUSINESS OUTLOOK SURVEY November 2008</b>	November vs. October					Six Months from Now vs. November				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	<b>Diffusion Index</b>
What is your evaluation of the level of general business activity?	<b>-37.5</b>	10.3	33.3	49.7	<b>-39.3</b>	<b>-4.2</b>	28.1	29.4	38.5	<b>-10.4</b>
Company Business Indicators										
New Orders	<b>-30.5</b>	17.5	32.5	48.9	<b>-31.4</b>	<b>-3.6</b>	32.4	28.2	39.4	<b>-7.0</b>
Shipments	<b>-18.8</b>	20.8	34.6	39.6	<b>-18.8</b>	<b>-12.3</b>	27.2	28.5	42.3	<b>-15.1</b>
Unfilled Orders	<b>-27.5</b>	11.8	45.1	40.9	<b>-29.1</b>	<b>-18.3</b>	11.2	52.7	33.3	<b>-22.1</b>
Delivery Times	<b>-20.2</b>	6.8	63.8	27.4	<b>-20.6</b>	<b>-25.6</b>	4.6	66.0	24.2	<b>-19.7</b>
Inventories	<b>-22.3</b>	14	51.0	33.6	<b>-19.6</b>	<b>-20.0</b>	7.5	53.1	34.4	<b>-26.9</b>
Prices Paid	<b>7.2</b>	8.8	47.4	39.5	<b>-30.7</b>	<b>14.5</b>	21.6	45.1	30.8	<b>-9.2</b>
Prices Received	<b>5.3</b>	11.9	58.1	27.4	<b>-15.5</b>	<b>8.9</b>	14.4	52.3	28.3	<b>-13.8</b>
Number of Employees	<b>-18.0</b>	12.6	48.7	37.8	<b>-25.2</b>	<b>-16.2</b>	17.1	36.8	42.2	<b>-25.1</b>
Average Employee Workweek	<b>-18.4</b>	10.4	54.6	30.1	<b>-19.7</b>	<b>-12.8</b>	11.6	54.8	30.0	<b>-18.4</b>
Capital Expenditures	--	--	--	--	--	<b>-2.0</b>	22.0	38.0	31.9	<b>-9.0</b>

#### 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 18, 2008.