



BUSINESS OUTLOOK SURVEY

May 2013

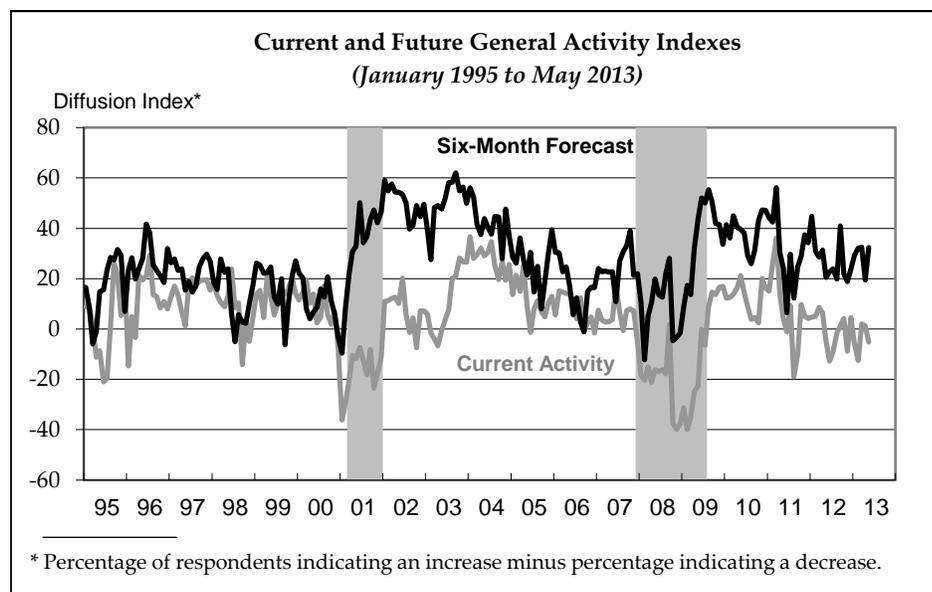
Manufacturing firms responding to the monthly *Business Outlook Survey* suggest that regional manufacturing activity weakened this month. All of the survey's broadest current indicators were negative this month, indicating weaker conditions compared with April. The survey's indicators of future activity improved, however, and suggest that firms expect overall growth over the next six months.

Indicators Suggest Weakening

The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from 1.3 in April to -5.2 this month. The current activity index has shown no pattern of sustained growth over the past seven months, generally alternating between positive and negative readings (see Chart). The number of firms reporting decreased activity this month (29 percent) edged out those reporting increased activity (24 percent).

Other current indicators showed similar weakness this month. The demand for manufactured goods remained weak, with the current new orders index declining from -1.0 to -7.9. The shipments index also indicated weakness, decreasing more sharply from 9.1 to -8.5. Firms reported a notable increase in inventories this month: The current inventories index increased from -22.2 to 4.1.

Labor market conditions showed continued weakness, with indexes suggesting lower employment overall. The employment index decreased 2 points to -8.7, its second consecutive negative reading. The percentage of firms reporting employment



decreases (22 percent) exceeded the percentage reporting increases (14 percent). The workweek index declined 10 points to -12.4, remaining negative for the fifth consecutive month.

Price Pressures Remain Muted

The survey's price indexes suggest continued moderation in price pressures. With regard to purchased inputs, 18 percent of firms reported paying higher prices for inputs, while 11 percent reported lower input prices. The prices paid index edged 4 points higher than in April, which was its lowest reading since July 2009. The prices received index increased 4 points, to -3.3. The percentage of firms reporting lower prices for their own manufactured goods (10 percent) exceeded the percentage reporting higher prices (7 percent) for the fifth consecutive month.

Six-Month Indicators Improve Notably

The survey's future indicators suggest improved optimism among the reporting manufacturers. The future activity index increased from 19.5 to 32.3, returning to near its level in March (see Chart). The percentage of firms expecting increases in activity over the next six months (45 percent) exceeded the percentage expecting decreases (12 percent) by a significant margin. The indexes for future new orders and shipments also improved, increasing 10 and 5 points, respectively. The future employment index also improved, increasing 2 points, a more modest increase than the other broader future indicators. Twenty-four percent of firms expect increases in employment over the next six months; 14 percent expect decreases.

Released: May 16, 2013, 10 a.m. ET.
The June *Business Outlook Survey* will be released on June 20, 2013, at 10 a.m. ET.

In special questions this month, firms were asked about their current inventory situation (see Special Questions). About 58 percent of firms indicated that their inventories were about right for current conditions. On balance, inventories are expected to fall in the second quarter: Nearly 26 percent of firms expect inventories to fall; 8 percent expect them to rise. Firms perceived little change in their customers' inventory plans in recent months. The majority (54 percent) indicated no change in their customers' inventory plans, and the share reporting decreases (12 percent) was near the share reporting increases (8 percent).

Summary

The May *Business Outlook Survey* indicates some weakening of activity this month, with all of the broad indicators recording negative diffusion indexes. The survey's indicators have failed to exhibit any sustained pattern of growth in recent months. The indicators for general activity, new orders, and shipments suggest weaker conditions this month, and firms reported employment

reductions. Price pressures continue to be modest. Despite weaker current indicators, firms continue to expect positive growth over the next six months.

Special Questions (May 2013)

1. Choose the statement that best characterizes your current inventory situation.

Inventories are:

	% of respondents
About right for current economic conditions	58.1
Too high and are expected to <i>decrease</i> in the second quarter	25.6
Too low and are expected to <i>decrease</i> in the second quarter	0.0
Too low and are expected to <i>increase</i> in the second quarter	4.7
Too high and are expected to <i>increase</i> in the second quarter	3.5

2. Over the past several months, did your customers' inventory plans:

	% of respondents
Increase	8.1
Not change	53.5
Decrease	11.6

Note: Percentages may not add to 100% because of no responses for some questions.

BUSINESS OUTLOOK SURVEY May 2013	May vs. April					Six Months from Now vs. May				
	<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?	1.3	23.8	41.8	29.0	-5.2	19.5	44.5	36.3	12.2	32.3
Company Business Indicators										
New Orders	-1.0	27.4	33.5	35.3	-7.9	24.3	47.2	34.2	12.7	34.5
Shipments	9.1	23.9	39.3	32.4	-8.5	26.5	47.1	29.1	15.4	31.7
Unfilled Orders	-8.7	12.6	60.5	21.9	-9.3	-2.1	24.4	61.7	7.5	16.9
Delivery Times	-13.8	10.2	68.3	16.2	-6.0	-4.5	12.1	69.4	10.2	1.9
Inventories	-22.2	25.3	52.2	21.2	4.1	-13.3	19.6	55.2	20.8	-1.3
Prices Paid	3.1	18.1	69.2	11.2	6.9	26.6	36.8	51.9	6.0	30.7
Prices Received	-7.5	7.0	81.3	10.3	-3.3	8.3	24.5	63.4	6.3	18.2
Number of Employees	-6.8	13.7	63.9	22.4	-8.7	8.2	23.9	56.8	14.0	10.0
Average Employee Workweek	-2.1	14.7	54.7	27.2	-12.4	6.6	26.4	53.9	12.3	14.1
Capital Expenditures	--	--	--	--	--	7.8	25.4	52.4	13.9	11.5

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 May 14, 2013.