August 2010

Results from the Business Outlook Survey suggest that regional manufacturing activity weakened in August, after two months of slowing activity. Indexes for general activity, new orders, and shipments all registered negative readings this month. Firms also reported declines in employment and work hours. The survey’s broad indicators of future activity continue to suggest that the region’s manufacturing executives expect growth in business over the next six months, but optimism has waned notably in recent months.

Indicators Suggest Weakness
The survey’s broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from a reading of 5.1 in July to -7.7 in August. The index turned negative, marking a period of declining monthly activity for the first time since July 2009 (see Chart). Indexes for new orders and shipments also suggest a slowing this month; the new orders index fell slightly, to -7.1, while the shipments index turned negative, declining to -4.5. Indicating weakness, indexes for both delivery times and unfilled orders remained negative this month.

The percentage of firms reporting a decline in employment (23 percent) was higher than the percentage (20 percent) reporting an increase. More concerning was the significant drop in the average employee workweek index from 1.7 in July to -17.1 in August.

Firms Report Lower Prices for Products
On balance, firms reported declines in prices for their own manufactured goods:

More firms reported decreases in prices (19 percent) than reported increases (6 percent). The largest percentage, 70 percent, reported no change in prices for their manufactured goods. Firms reported somewhat less cost pressures over the past three months. The prices paid index decreased 1 point this month, to 11.8.

Manufacturers Expect Continued Growth
The future general activity index remained positive for the 20th consecutive month but weakened slightly (see Chart). The future new orders index increased to 25.7 and shipments remained unchanged. Information about future inventories suggests that drawdowns are expected in the next six months.

The percentage of firms expecting employment to decrease over the next six months (22 percent) slightly exceeded the percentage expecting increases (21 percent). The future employment index decreased 14 points, moving the index into negative territory.

In special questions this month, firms were asked about exporting activity and any changes to production outsourcing or “insourcing,” the return of operations from abroad (see Special Questions). About 30 percent of the firms indicated that the share of sales attributed to exports increased over the past year, a trend consistent with the previous two years.

Among firms that reported an increase in export share, the mean response indicates that 13.6 percent of sales growth is attributable to exports. Since the start of 2010, roughly 10 percent of firms have moved some activities abroad; only 5 percent have returned activities to the U.S.
BUSINESS OUTLOOK SURVEY
August 2010

Previous Diffusion Index
Increase No Change Decrease Diffusion Index

What is your evaluation of the level of general business activity? 5.1 17.9 49.1 25.6 -7.7 25.0 35.3 39.3 15.7 19.6

Company Business Indicators

New Orders -4.3 22.8 45.9 29.8 -7.1 17.9 40.0 36.2 14.4 25.7

Shipments 4.0 21.7 49.1 26.2 -4.5 21.7 39.3 34.7 17.6 21.7

Unfilled Orders -8.6 14.5 61.0 21.6 -7.1 -3.7 18.2 59.2 15.9 2.2

Delivery Times -8.1 7.6 69.3 18.6 -11.0 -11.6 14.7 62.8 13.9 0.8

Inventories 4.5 12.5 58.6 24.0 -11.6 -13.8 19.4 37.5 36.3 -16.9

Prices Paid 13.1 21.6 65.7 9.9 11.8 27.5 39.4 44.6 9.2 30.2

Prices Received -8.4 6.3 69.9 18.9 -12.5 10.1 21.8 53.7 18.8 3.0

Number of Employees 4.0 20.0 51.5 22.7 -2.7 12.6 20.7 50.9 22.4 -1.7

Average Employee Workweek 1.7 11.6 54.3 28.8 -17.1 9.5 15.0 59.6 18.3 -3.3

Capital Expenditures -- -- -- -- -- 8.6 32.0 39.8 19.7 12.3

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 August 16, 2010.