



ECONOMIC REPORT

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April 2009



MAPI Survey on the Business Outlook—March 2009

Composite Index Sets a New Record Low of 21 Percent; Every Individual Index Falls to Record Low as Manufacturing Activity Drops Sharply

Senior Financial Executives Surveyed on Responses to the Recession and the Outlook for Recovery

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MAPI Survey on the Business Outlook—March 2009

HIGHLIGHTS

- The Manufacturers Alliance/MAPI composite index of future business activity fell from 28 percent in December to 21 percent in March. This is the second straight quarter that this index has fallen to a record low.
- All the individual indexes fell sharply, and all but the inventory index reached record lows:
 - The **orders index**—based on a comparison of orders in the *first* quarter of 2009 with the first quarter of 2008—fell from 15 percent to 4 percent.
 - The **U.S. prospective shipments index**—based on a comparison of expected U.S. shipments in the second quarter of 2009 with the second quarter in 2008—declined from 14 percent to 5 percent.
 - The **non-U.S. prospective shipments index** fell from 27 percent to 8 percent.
 - The **export orders index** declined from 25 percent to 8 percent.
 - The **annual orders index** fell from 16 percent to 7 percent.
 - The **backlog orders index** decreased from 21 percent to 14 percent.
 - The **inventory index** fell from 50 percent to 37 percent, the first time this index has been below the 50 percent threshold separating expansion from contraction since March 2004.
 - The **profit margin index** fell from 43 percent to 19 percent.
 - The **capacity utilization index**, as measured by the percentage of companies operating at 85 percent or more of capacity, fell from 26.7 percent to 10.5 percent.
 - The **U.S. investment index**, based on expectations for capital spending for all of 2009, decreased from 30 percent to 14 percent.
 - The **non-U.S. investment index**, which asks about companies' plans for capital spending outside the United States in 2009, dropped from 40 percent to 14 percent.
 - The **R&D index** fell from 50 percent to 41 percent. The last time the R&D index fell below 50 percent was in December 2001.
- The composite and individual indexes have been in a freefall over the past two quarters. This quarter's survey results reflect a deep contraction in manufacturing activity and point to a continued decline over the next three to six months.
- This quarter's wildcard questions dealt with responses by companies to the recession and the outlook for the recovery. The findings included the following:
 - In response to the recession, more than 90 percent of the companies are reducing their workforce and/or hours, capital expenditures, and travel. One-third of the companies are reducing some employee benefits.
 - Most do not expect the trough will occur in the first quarter of 2009, but there is no consensus as to when the business activity will reach its trough.
 - More than three-fourths (77.8 percent) of the respondents expect that the recovery will be gradual and weak.
 - Most (68.3 percent) expect deflation for much of 2009 and then moderate inflation in 2010.
 - Slightly more than half of the respondents (56.9 percent) have not seen any improvement in credit market conditions since September 2008, while 38.5 percent have seen a modest improvement and 4.5 percent have seen significant improvement.
 - Most senior financial executives (60.3 percent) expect the new federal stimulus package will be "slightly" effective in turning the economy around, while 31.7 percent do not think the fiscal stimulus will be effective.

Part 1: Results of the March 2009 Survey on Business Activity

Introduction

The Manufacturers Alliance/MAPI *Survey on the Business Outlook—March 2009* reflects the views of 67 senior financial executives in member companies on current and future business conditions. The questionnaire was sent out at the end of February and responses were due by March 31, 2009.

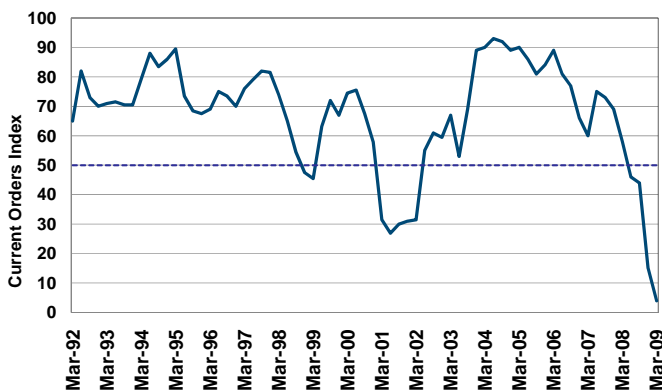
First Quarter Orders

In March, just 2 percent of the respondents reported that U.S. orders in the current quarter will be up on a year-over-year basis, while 94 percent indicated orders will be lower. The orders index for the first quarter was a record low 4 percent, down from 15 percent in December. The orders index is well below 50 percent, the boundary between expansion and contraction, indicating U.S. orders in the first quarter are expected by most respondents to be lower on a year-over-year basis. This is the seventh straight quarter the current orders index has declined.

The quarterly current orders index from March 1992 through March 2009 is shown in Figure 1. The detailed responses on the outlook for orders in the first quarter are presented in the following table along with the responses from the previous four surveys where respondents were asked about current quarter orders.

Survey Month	Up	Down	About Same	Orders Index
March 2008	46%	29%	25%	58%
June 2008	37%	45%	18%	46%
September 2008	37%	49%	14%	44%
December 2008	8%	77%	15%	15%
March 2009	2%	94%	4%	4%

Figure 1
Current Orders Index
(March 1992 – March 2009)



Source: Manufacturers Alliance/MAPI

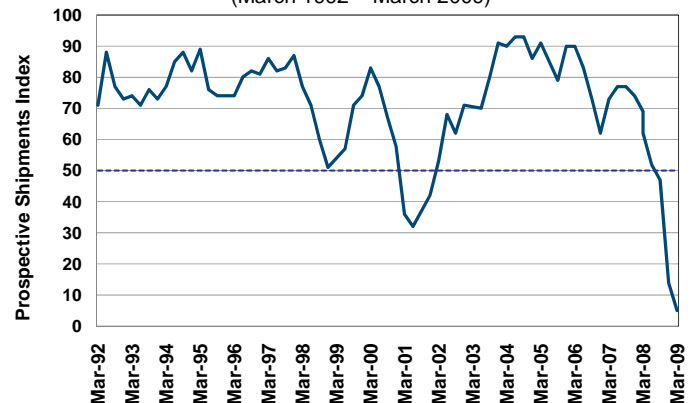
Prospective Shipments (U.S.) —Second Quarter 2009

The prospective U.S. shipments index compared expected shipments in the **second quarter** of 2009 with those in the second quarter of 2008. The prospective shipments index in March was 5 percent, down from 14 percent in December. A mere 2 percent of the respondents expect second quarter shipments to increase compared to 8 percent in December. The percentage of respondents expecting prospective shipments to decline increased from 81 percent in December to 92 percent. This forward-looking index thus is far below the 50 percent level that separates expansion from contraction, indicating that overall manufacturing activity in the second quarter will be lower on a year-over-year basis.

The trend in the shipments index since March 1992 is shown in Figure 2. The detailed March responses on prospective shipments are shown with responses from the past four quarters in the table that follows.

Survey Month	Up	Down	About Same	Shipments Index
March 2008	51%	28%	21%	62%
June 2008	38%	35%	27%	52%
September 2008	40%	46%	14%	47%
December 2008	8%	81%	11%	14%
March 2009	2%	92%	6%	5%

Figure 2
Prospective Shipments Index
(March 1992 – March 2009)



Source: Manufacturers Alliance/MAPI

Prospective Shipments (Non-U.S.) —Second Quarter 2009

The non-U.S. prospective shipments index fell from 27 percent in December to a record low 8 percent. As shown in the table below, 3 percent of the respondents expect non-U.S. prospective shipments in the second quarter will be up on a year-over-year basis, down from 13 percent in

December. Eighty-six percent expect non-U.S. shipments will be lower, up from 58 percent in December.

The non-U.S. prospective shipments index is well below the 50 percent level, indicating that non-U.S. shipments in the second quarter of 2009 are expected to be lower on a year-over-year basis. This marks a sharp turnaround from the outlook in last September's survey. The survey responses on non-U.S. shipments for March and the previous four quarters are shown in the following table.

Survey Month	Up	Down	About Same	Non-U.S. Shipments Index
March 2008	68%	8%	24%	80%
June 2008	80%	1%	19%	89%
September 2008	60%	14%	26%	73%
December 2008	13%	58%	29%	27%
March 2009	3%	86%	11%	8%

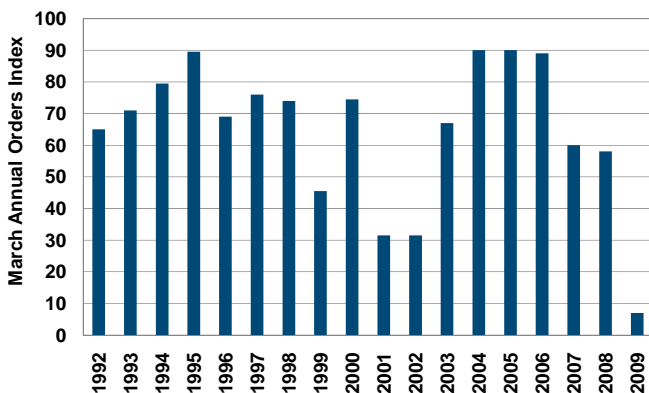
Annual Orders

Survey respondents were asked how U.S. orders for all of 2009 are expected to compare with orders in 2008. Just 5 percent of the respondents expect annual orders will increase in 2009, while 91 percent expect orders will decline. The overall annual orders index dropped from 16 percent in December to a record low 7 percent. Because the annual orders index is below the 50 percent threshold that separates expansion from contraction, overall manufacturing is expected to decline in 2009.

The March responses on the outlook for annual orders for 2009 are compared to the responses in the September and December surveys in the table below. September is the month when executives are first asked about their expectations for annual orders in the following year. The trend in the annual orders index reported in each March survey since 1992 is shown in Figure 3.

Survey Month	Up	Down	About Same	Annual Orders Index
September 2008	44%	27%	29%	58%
December 2008	10%	77%	13%	16%
March 2009	5%	91%	4%	7%

Figure 3
Annual Orders Index (March)
(Outlook for the Entire Year)



Source: Manufacturers Alliance/MAPI

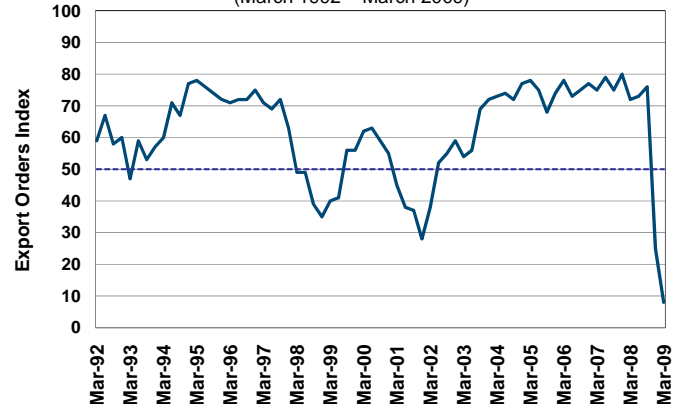
Export Orders

The export orders index was very strong between December 2003 and September 2008. The index fell sharply in December 2008, reaching a record low 25 percent. In March the index fell to yet another record low of 8 percent. Just 3 percent of the respondents expect exports will be higher in the first quarter compared to the same quarter last year, while 86 percent expect exports will be lower.

The March 2009 survey responses on current quarter export orders are shown with responses from the past four quarters in the table below. The trend in the export index since March 1992 is presented in Figure 4.

Survey Month	Up	Down	About Same	Export Orders Index
March 2008	52%	8%	40%	72%
June 2008	54%	8%	38%	73%
September 2008	59%	7%	34%	76%
December 2008	8%	57%	35%	25%
March 2009	3%	86%	11%	8%

Figure 4
Export Orders Index
(March 1992 – March 2009)



Source: Manufacturers Alliance/MAPI

Backlogs

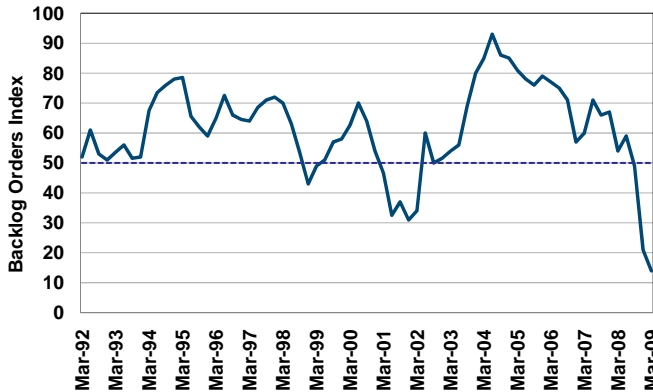
An accumulation of backlogs occurs when new orders exceed shipments. Growing backlogs point to underlying strength in manufacturing, while declining backlogs indicate slowing activity in the future. The percentage of respondents reporting that backlogs were up fell from 11 percent to 8 percent. The percentage of respondents reporting that backlogs were down on a year-over-year basis rose from 69 percent to 80 percent. The backlogs index decreased from 21 percent to a new record low of 14 percent. This decrease is another indication that overall manufacturing activity will fall over the next three to six months.

The March 2009 survey responses are shown below, along with those from the past four quarterly surveys. The historical trend in the backlogs index since March 1992 appears in Figure 5.

Survey Month	Up	Down	About Same	Backlogs Index
March 2008	40%	30%	30%	55%
June 2008	43%	26%	31%	59%
September 2008	36%	38%	26%	49%
December 2008	11%	69%	20%	21%
March 2009	8%	80%	12%	14%

Capacity Utilization (Percent)	March 2009 Survey	December 2008 Survey
96 or more	0.0%	6.7%
91-95	4.5%	10.0%
86-90	6.0%	10.0%
81-85	13.4%	10.0%
76-80	20.9%	31.7%
75 or less	55.2%	31.7%

Figure 5
Backlog Orders Index
(March 1992 – March 2009)



Source: Manufacturers Alliance/MAPI

Capacity Utilization

The capacity utilization index, as measured by the percentage of firms operating above 85 percent of capacity, fell from 26.7 percent to a record low 10.5 percent. The previous record low of 11.0 percent was set in March 1992. The percentage of firms operating at less than 75 percent of capacity increased from 31.7 percent to 55.2 percent. The capacity utilization index is well below its long-term average of 33.3 percent.

The distribution of companies by their capacity utilization in the March 2009 and December 2008 surveys is presented in the table below. The trend in capacity utilization from March 1992 through March 2009 is shown in Figure 6.

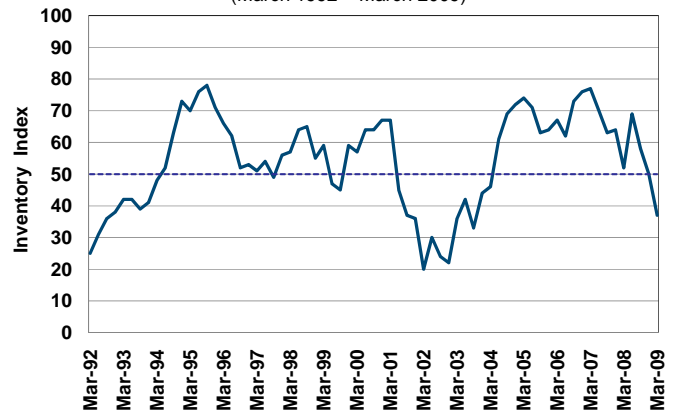
Inventories

The inventory index is based on a comparison of inventory levels in the current quarter with those of one year ago. Twenty-five percent of the respondents reported that inventories are up on a year-to-year basis, compared to 33 percent in December. The percentage of respondents reporting that inventories were down rose from 33 percent in December to 52 percent. The March 2009 inventory index fell from 50 percent to 37 percent, the first time since March 2004 that it has fallen below the 50 percent threshold separating expansion from contraction. The decrease in the inventory index since June 2008 indicates that more manufacturers are having some success in bringing inventories into line with the marked decline in orders.

The trend in the inventory index over the past 17 years is shown in Figure 7. The March 2009 survey responses are presented along with those from the past four quarterly surveys in the table below.

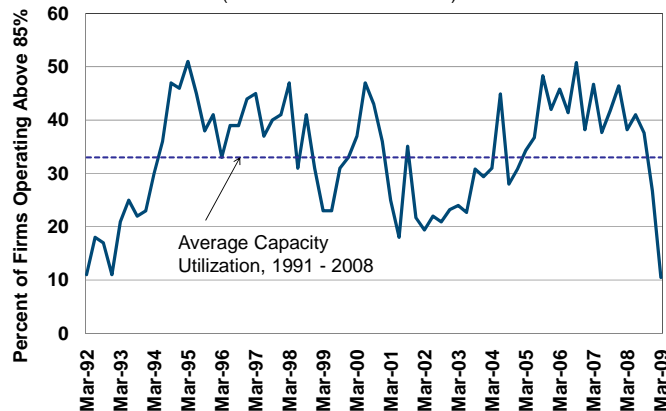
Survey Month	Up	Down	About Same	Inventory Index
March 2008	43%	34%	23%	54%
June 2008	57%	19%	24%	69%
September 2008	50%	34%	16%	58%
December 2008	33%	33%	34%	50%
March 2009	25%	52%	23%	37%

Figure 7
Inventory Index
(March 1992 – March 2009)



Source: Manufacturers Alliance/MAPI

Figure 6
Capacity Utilization
(March 1992 – March 2009)



Source: Manufacturers Alliance/MAPI

Profit Margins

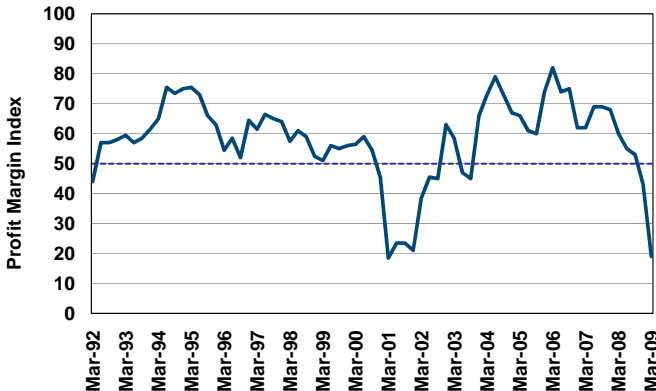
The profit margin index fell from 43 percent in December to a record low of 19 percent in March. Thirteen percent of the respondents reported that profit margins are

up, compared to 30 percent in December. Three-fourths (75 percent) reported that margins are lower, up from 45 percent. This is the sixth straight quarter that the profit margin index has declined, and it is another sign of weakness in the manufacturing sector.

The trend in the profit margin index over the past 17 years is shown in Figure 8. The March 2009 survey responses are shown in the table below along with the responses from the previous four surveys.

Survey Month	Up	Down	About Same	Profit Margin Index
March 2008	49%	29%	22%	60%
June 2008	48%	37%	15%	55%
September 2008	44%	39%	17%	53%
December 2008	30%	45%	25%	43%
March 2009	13%	75%	12%	19%

Figure 8
Profit Margin Index
(March 1992 – March 2009)



Source: Manufacturers Alliance/MAPI

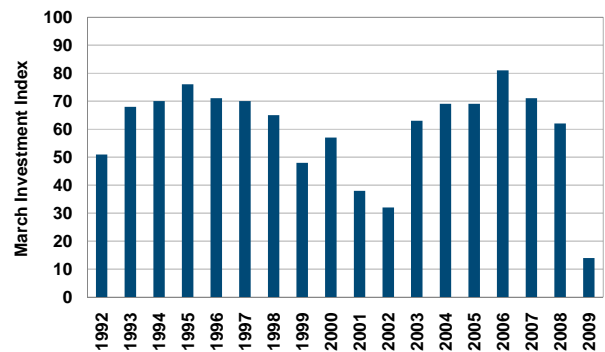
Investment (U.S.)

In September, when respondents were first asked how capital spending in 2009 would compare to capital spending in 2008, 42 percent reported that spending would rise, and 31 percent said that spending would be down. In the March 2009 survey, just 8 percent said capital spending would rise while 79 percent said it would be down. The overall U.S. investment index was a record low 14 percent, down from 30 percent in December. Because the index fell below the 50 percent threshold, overall U.S. investment is expected to decline in 2009.

The March responses on the outlook for U.S. investment for 2009 are compared to the responses in the September and December surveys in the table below. The trend in the U.S. investment index reported in each March survey since 1992 is shown in Figure 9.

Survey Month	Up	Down	About Same	U.S. Investment Index
September 2008	42%	31%	27%	56%
December 2008	14%	54%	32%	30%
March 2009	8%	79%	13%	14%

Figure 9
Investment Index (March)
(Outlook for the Entire Year)



Source: Manufacturers Alliance/MAPI

Investment (Non-U.S.)

The non-U.S. investment index was 14 percent, well below its level of 64 percent in September when respondents were first asked how investment outside the United States in 2009 would compare with non-U.S. investment in 2008. Just 8 percent of the respondents expect non-U.S. investment will rise above 2008 levels, while 80 percent expect it will fall. Because the overall index is below the 50 percent threshold, investment outside the United States is expected to fall in 2009. The March responses on the outlook for non-U.S. investment for 2009 are compared to the responses in the September and December surveys in the table below.

Survey Month	Up	Down	About Same	Non-U.S. Investment Index
September 2008	45%	17%	38%	64%
December 2008	23%	42%	35%	40%
March 2009	8%	80%	12%	14%

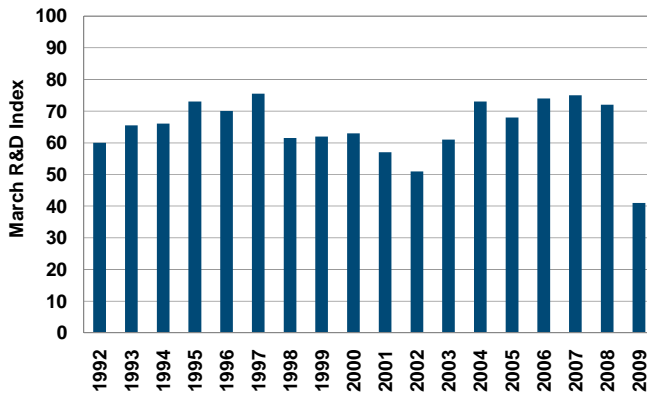
Research and Development

Executives were asked how research and development (R&D) expenditures in 2009 would compare with those in 2008. The R&D spending index was 41 percent in March, down from 50 percent in December, and is at a record low. At 41 percent, R&D spending in 2009 is expected to fall below R&D spending in 2008. Although the index is at a record low, it remains at a much higher level than other indexes. Throughout the time it has been compiled, the R&D index has been less sensitive to changes in overall manufacturing activity than other indexes.

The March responses on the outlook for R&D spending in 2009 are compared to the responses in the September and December surveys in the table below. The trend in the R&D index reported in each March survey since 1992 is shown in Figure 10.

Survey Month	Up	Down	About Same	R&D Index
September 2008	48%	6%	46%	71%
December 2008	21%	21%	58%	50%
March 2009	12%	30%	58%	41%

Figure 10
R&D Index (March)
(Outlook for the Entire Year)



Source: Manufacturers Alliance/MAPI

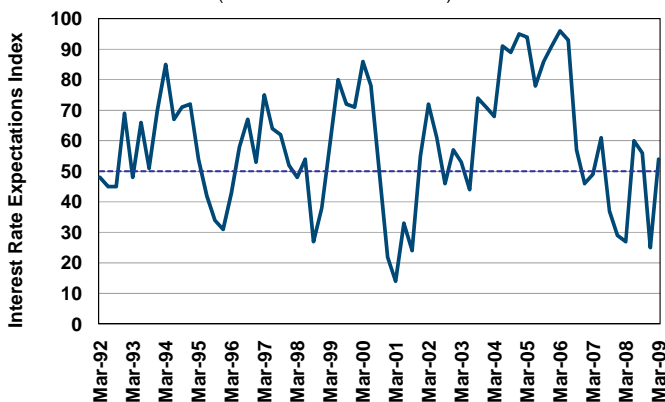
Interest Rates

The interest rate index reflects the preponderance of expectations regarding the trend in long-term interest rates over the next quarter. The overall interest rate index rose from 25 percent in December to 54 percent in March, indicating that long-term rates are expected to rise in the second quarter.

In the December 2008 survey, 55 percent of the respondents expected long-term rates to fall, while just 5 percent expected rates to rise. At the end of March, the interest rate on 10-year Treasury Notes was 2.7 percent, up from 2.2 percent at the end of December. The average rate on Moody's Aaa bonds rose from 4.7 percent at the end of December to 5.4 percent at the end of March. The difference between these rates rose from 2.5 percentage points to 2.7 percentage points.

The March responses on interest rate expectations are presented in the table below along with responses from the four previous surveys. The trend in the interest rate index from March 1992 to March 2009 is shown in Figure 11.

Figure 11
Interest Rate Expectations Index
(March 1992 – March 2009)



Source: Manufacturers Alliance/MAPI

Survey Month	Up	Down	About Same	Interest Rate Index
March 2008	10%	56%	34%	27%
June 2008	33%	12%	55%	60%
September 2008	30%	18%	52%	56%
December 2008	5%	55%	40%	25%
March 2009	19%	12%	69%	54%

Industrial Production Index and Capacity Utilization Rates—Recent Federal Reserve Data

The Federal Reserve Board's index of production for the manufacturing sector was 95.8 in March 2009, down 15.0 percent from its level of 112.7 in March 2008.¹ The index is based on 2002 when it was equal to 100. Thus, manufacturing output in February was 4.2 percent below its 2002 level. The March 2009 production index for durable goods manufacturing was down 20.1 percent from March 2008.² The decline in these production indexes accelerated in September 2008. The percentage decline in the industrial production index for manufacturing is much larger than what occurred in the previous recession, when it fell by 6.8 percent from its peak in June 2000 to its trough in November 2001.

The manufacturing sector's capacity utilization rate was 65.8 percent in March, well below its long-term average utilization rate of 79.6. Since reaching 79.4 percent in June 2007, the rate of capacity utilization has trended downward. The rate of decline also increased starting in September 2008. In the last recession, the capacity utilization fell to 71.4 percent at its lowest point.

As reported above, the *Business Outlook Survey's* measure of capacity utilization fell sharply from December to March and is also below its long-term average. Note that the capacity utilization indexes reported by the Fed and the *Business Outlook Survey* are based on different definitions of capacity utilization. The Fed's index is based on the average utilization rate for the manufacturing sector, whereas the *Business Outlook Survey* index is based on the percentage of companies operating at a utilization rate at 85 percent and above.³

Composite Business Outlook Index

The Manufacturers Alliance/MAPI's composite business outlook index summarizes the overall findings of the survey and provides a leading indicator of manufacturing sector activity over the next three months. It is based on a weighted sum of prospective shipments, backlogs,

¹ Federal Reserve Board, "Industrial Production and Capacity Utilization" Federal Reserve Statistical Release, April 15, 2009.

² *Ibid*, Table 1, p. 8.

³ Because the measure of capacity utilization in the *Business Outlook Survey* is not an average of utilization rates, it tends to be more volatile than the Fed's measure of capacity utilization.

Table 1
Distribution of Responses by Industry
 (Percent)

	March 2009	December 2008	September 2008	June 2008
Aerospace and Misc. Transportation Equipment	12.7	9.8	10.1	7.7
Chemical	6.3	4.9	4.3	4.6
Computers, Electronics	1.6	0.0	0.0	3.1
Electrical Equipment, Appliances, Components	19.0	18.0	14.5	16.9
Fabricated Metals	7.9	9.8	11.6	7.7
Heavy Construction/Building Materials	7.9	4.9	11.6	10.8
Machinery	12.7	8.2	10.1	10.8
Motor Vehicles and Parts	3.2	11.5	10.1	10.8
Paper	3.2	4.9	2.9	1.5
Petroleum, Coal	1.6	3.3	1.4	3.1
Plastics, Rubber	4.8	4.9	4.3	3.1
Primary Metals Manufacturing	3.2	1.6	8.7	3.1
Other	15.9	18.0	10.1	16.9
Number of responses	63	61	69	65

Percentages may not total to 100 percent due to rounding.

Source: Manufacturers Alliance/MAPI

inventories, and profit margin indexes.⁴ The composite business outlook index fell from what was a record low of 28 percent in December to a new record low of 21 percent. The composite index points to a continuing decline in overall manufacturing output over the next three to six months.

Figure 12 shows the trend in the composite business outlook index from September 1991 through March 2009. The Fed's industrial production index for the manufacturing sector (based on annualized quarterly growth rates) also is shown in Figure 12. This index generally tracks the composite business outlook index closely. A rise or fall in the composite business outlook index generally is followed by an even sharper rise in the overall industrial production index for manufacturing.⁵

The consistency of the responses by survey participants representing a broad range of manufacturing industries is unprecedented in the history of the *Business Outlook Survey*. With the exception of the interest rate index which does not measure manufacturing sector activity and

the inventory index, all of the other individual indexes reached record lows in March. Further, with the exception of the inventory and R&D indexes, all of the indexes were at extremely low levels in absolute terms. This month's survey results clearly paint a grim outlook for the first quarter of 2009 and for at least the next three months. This quarter's wildcard questions, presented in Part II, focus on what companies are doing in response to the sharp contraction in activity and the outlook for a turnaround.

Manufacturers Alliance/MAPI Forecast of Economic Activity

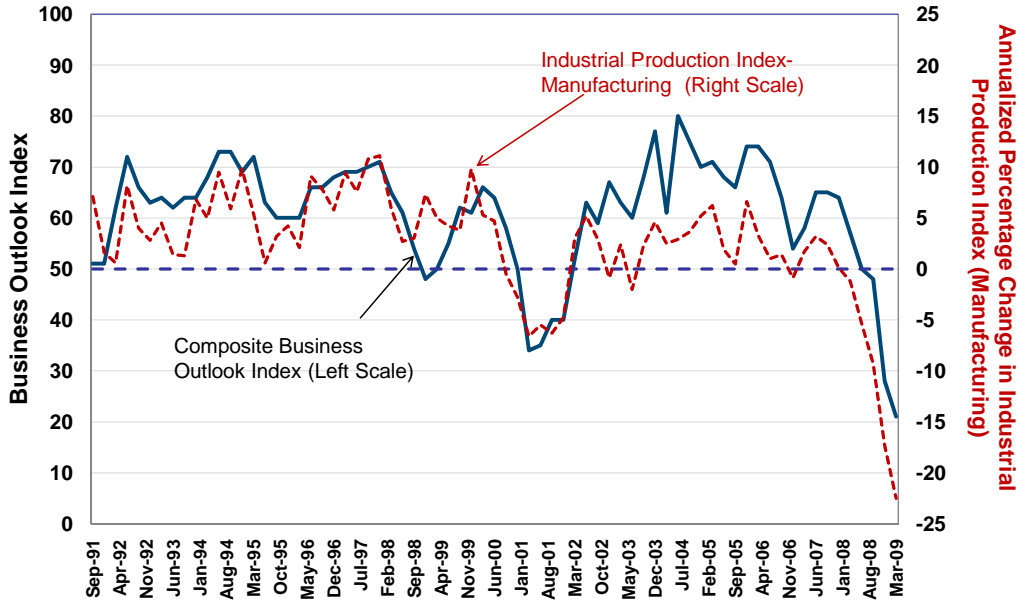
The composite business outlook index points to a continued downward trend in overall manufacturing sector activity over the next three to six months, but it does not forecast the rate of decline. The Manufacturers Alliance/MAPI produces a quarterly forecast for the overall economy, the manufacturing sector, and selected industries.⁶ The most recent forecast (released in February) projects that GDP will decline by 2.1 percent in 2009. Overall manufacturing production is expected to decline by 9.1 percent in 2009. When computers, communications, and semiconductor chips sectors are netted out, manufacturing activity is expected to decline by 8.4 percent for all of 2009. The overall economy and manufacturing activity are expected to show signs of improvement in the latter half of 2009.

⁴ In developing the index, a number of different weightings were explored. A 40 percent weight for prospective shipments index and a 20 percent share each for backlogs, profit margins, and inventory indexes were chosen based on their ability to provide a "best fit" for the model. The 20 percent weight for the inventory index is applied to 100 percent minus the inventory index because an increase in the inventory index tends to be associated with slowing activity, while a decrease raises the likelihood of increased production for an inventory build.

⁵ Exceptions occurred in 1998 when the Asian crisis led to a drop in U.S. exports of durable manufactured goods and in the latter part of 2002 and early 2003, when manufacturing sector activity fell following a period in which a recovery appeared to be under way.

⁶ The forecast results are available to executives in member companies of the Manufacturers Alliance/MAPI. The forecast utilizes the Global Insight, Inc. econometric model of the U.S. economy. The forecast is based on assumptions made by MAPI economists regarding key drivers of the model.

Figure 12
Composite Business Outlook
 (September 1991 – March 2009)



Source: Manufacturers Alliance/MAPI

Survey Coverage

To determine what industries are represented in the survey, respondents were asked what broadly defined industry group best describes their company's largest sales unit. The distribution of industries represented in the March survey is presented in Table 1 along with the distributions in the three previous surveys. The biggest change over the past year is the decline in the percentage of companies in the motor vehicles industry and the increase in the percentage of companies in the aerospace industry. Industries in the "other" category included diversified industrial manufacturing, energy equipment manufacturing, filtration products, commercial equipment, broadcasting, and office products.

The size distribution of the respondents' companies, based on total worldwide revenues, is shown in Table 2. The size distribution of companies represented in the March survey is very similar to previous surveys.

Table 2
Size Distribution of Companies

Total Revenues	Number	Percent
Less than \$1 billion	15	23.8
\$1 billion to \$3 billion	28	44.4
\$3.1 billion to \$5 billion	5	7.9
\$5.1 billion to \$10 billion	8	12.7
Greater than \$10 billion	7	11.1

Source: Manufacturers Alliance/MAPI

Part 2: Responses to the Recession and the Outlook for Recovery

Survey respondents were asked a number of questions related to the recession, including what steps their companies are taking in response to the recession, the indicators they think will signal the start of a recovery in their industry, and when they expect their company's business will reach the trough of the recession.

Company Responses to the Recession

Respondents were first asked to indicate the major steps their companies are taking in response to the current economic environment. They were given a list of actions and asked to check all those that represent a

significant action in terms of its scale of scope. The frequencies that various actions were cited are shown in Table 3.

More than 90 percent of the companies are reducing their workforce and/or hours, capital expenditures, and travel. About one-third (32.8 percent) are reducing some employee benefits (e.g., healthcare, pensions, and 401k plans). "Other" actions include: plant closures; furloughs and voluntary time off; reduced Directors' fees; renegotiation of fees paid to professional service providers; and reductions in the use of outside services (e.g., consultants).

**Table 3
Major Steps Taken in Response to the Recession**

	Frequency	Percent
Reduced workforce and/or hours	60	93.8
Reduced capital expenditures	59	92.2
Reduced travel	58	90.6
Reduced salaries/bonuses	42	65.6
Reduced advertising/sales effort	35	54.7
Reduced employee benefits	21	32.8
Reduced dividend payments	9	14.1
Other	6	9.4

Note: Percentages based on 64 responses.

Source: Manufacturers Alliance/MAPI

Reaching the Trough

Respondents were asked when they expect their companies' business activity will reach the trough of this recession. The responses are summarized in Table 4. Few expect the trough will occur in the first quarter of 2009, but judging by the distribution of responses over the remaining time periods in Table 4 there is no consensus as to when the business activity will reach its trough.

Because the respondents are with companies in different industries, it is possible that the expectations are industry-specific. That is, one might expect to find a consensus among respondents with companies in the same industry. When the responses were sorted by industry, however, there was no indication of any consensus. For example, of the 12 responses from executives with companies in the electrical equipment and appliances industry, two expect the trough will occur in the first quarter of 2009; five expect it will occur in the second quarter; none expect it to occur in the third quarter; two expect it will occur in the fourth quarter; and three expect the trough will not occur until sometime in 2010.

**Table 4
When Will the Trough Occur?**

	Number	Percent
First Quarter 2009	2	3.2
Second Quarter 2009	21	33.3
Third Quarter 2009	14	22.2
Fourth Quarter 2009	10	15.9
Sometime in 2010	16	25.4

Source: Manufacturers Alliance/MAPI

Early Signs of Recovery

Respondents were asked what indicators they think will provide an early signal that their companies' business is starting to recover. A large number of indicators were cited. Those that were mentioned by at least two respondents are listed in Table 5. Indications of new orders and increased sales were listed by 30 percent of the respondents. This was followed by housing starts and home sales, cited by 18.3 percent of the respondents.

**Table 5
Signs of Recovery**

	Frequency	Percent
New orders/sales	18	30.0
Housing starts/home sales	11	18.3
Credit market/Interest rates	7	11.7
Rise in industrial production index	6	10.0
Improved consumer confidence	5	8.3
Rising commodity prices	5	8.3
Increased automobile sales	5	8.3
Credit market conditions	4	6.7
Infrastructure spending	3	5.0
Transportation growth	3	5.0
Employment trends	2	3.3
Stock market trends	2	3.3

Note: Percentages based on 60 responses.

Source: Manufacturers Alliance/MAPI

Nature of the Recovery

Respondents were asked how they would characterize their expectations regarding the nature of the recovery for their company's industry. As shown in Table 6, 77.8 percent of the respondents expect that the recovery will be gradual and weak.

**Table 6
Expectations Regarding the Recovery**

	Number	Percent
Gradual and weak	49	77.8
Sharp rebound	10	15.9
Other/unknown	4	6.3

Source: Manufacturers Alliance/MAPI

Deflation or Inflation?

Senior financial executives were given several statements pertaining to the scenarios for the overall price level between the first quarter of 2009 and the end of 2010 and asked to select which best described their current thinking. Most (68.3 percent) expect deflation for much of 2009 and then moderate inflation in 2010. Just 11.1 percent expect deflation to prevail throughout the entire period, while 15.9 percent expect deflation in 2009 and then significant inflation in 2010.

**Table 7
Price Level Outlook**

	Number	Percent
Deflation through the end of 2010	7	11.1
Deflation for much of 2009 and then moderate inflation in 2010	43	68.3
Deflation for much of 2009 and then significant inflation in 2010	10	15.9
Inflation for most of 2009 and thereafter	1	1.6
Relative price stability in 2009/2010	2	3.6

Source: Manufacturers Alliance/MAPI

Credit Market Conditions

Respondents were asked about the extent to which their companies' abilities to tap credit markets have improved since September 2008. Slightly more than half (56.9 percent) have not seen any improvement, while 38.5 percent have seen a modest improvement and 4.5 percent have seen significant improvement (Table 8).

Table 8
**Change in Credit Market Conditions
 Since September 2008**

	Number	Percent
No improvement	37	56.9
Modest improvement	25	38.5
Significant improvement	3	4.6

Source: Manufacturers Alliance/MAPI

Effectiveness of Federal Fiscal Stimulus Package

Senior financial executives were asked how effective they thought the new federal stimulus package will be in turning the economy around. Most (60.3 percent) expect the stimulus package will be "slightly" effective. Nearly a third (31.7 percent), however, does not think that the fiscal stimulus will be effective, and no one thought it would be "very" effective.

Table 9
**Rating the Effectiveness of the
 Federal Stimulus Package**

	Number	Percent
Not effective	20	31.7
Slightly effective	38	60.3
Moderately effective	5	7.9
Very effective	0	0.0

Source: Manufacturers Alliance/MAPI