

# NABE Industry Survey

CELEBRATING  
**25**  
YEARS  
1982–2007

National Association For Business Economics

October 2007

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Embargoed until:

Monday, October 22, 2007

12:01 AM EDT

## ***NABE Panel: Business Conditions Deteriorate, Outlook Dims***

The October 22, 2007, report presents the responses of 113 NABE members to a survey on business conditions in their firm or industry conducted between October 1 and 16, and reflects third-quarter 2007 results and the near-term outlook.

This NABE survey provides insights into these questions:

- How did business activity by sector in the third quarter compare to the second quarter? What lies ahead? (pp. 3 and 11)
- Are costs for material inputs and labor still rising? Are firms achieving price and/or profit increases? (pp. 4-6)
- Are hiring and capital spending still rising? What is the outlook for the coming 6-12 months? (pp. 7-10)
- Will the housing bust continue? Will it have a widespread impact on other sectors? (p. 11)
- How are tightening credit conditions affecting businesses? (p. 11)

COMMENTS: “The October NABE Industry Survey found that business activity, capital spending, and hiring slowed in the third quarter in response to tightening credit conditions and a rapidly deteriorating housing market,” said **Sara Johnson, Managing Director, Global Insight**. “The housing market outlook turned from bad to worse: an overwhelming 98% of respondents expect a further slowdown in housing activity, and 54% expect the slowdown to be substantial. The tightening of credit conditions since early August is hurting business at 36% of firms surveyed, with financial and goods-producing sectors most severely affected. Despite persistent material cost pressures, profit margins improved for a 17<sup>th</sup> consecutive quarter as firms raised prices and kept unit labor costs in check. Performance in the goods-producing sector is lagging, however, with both profit margins and employment decreasing in the third quarter. Since July, NABE survey participants have marked down their forecasts of U.S. economic growth in the second half of 2007. In the October survey, 52% expected annualized real GDP growth of 0-2% and 40% projected growth in the 2-3% range. The good news is that respondents expect the economy to keep expanding, with both employment and capital spending rising—albeit more slowly than anticipated three months ago.”

### **HIGHLIGHTS**

- Based on a quarterly survey of 113 NABE members in four broad sectors, growth in demand for goods and services at respondents’ firms slowed in the third quarter of 2007. Goods-producing firms reported a downturn in demand for the first time since the October 2006 survey. After strengthening in the spring, growth slowed abruptly in finance, insurance, and real estate (FIRE), and transportation, utilities, information, and communications (TUIC). In contrast, firms in the services sector noted a slight pick-up in growth during the summer quarter.
- The majority of respondents stated that tightening credit conditions have not affected their business, while just over a third reported negative impacts. The finance and goods-producing sectors had the largest percentage of respondents indicating a negative impact on their business.
- More than half of the respondents expect a further *substantial* slowdown in housing markets, and only two percent do not expect a further slowdown. Respondents split as to whether a slowdown, mild or severe, would have an impact on their business.
- Industry profit margins increased for a 17<sup>th</sup> consecutive quarter, although the rate of improvement has downshifted in 2007. Goods-producing firms, however, saw profit margins decrease for a second consecutive quarter.
- Capital spending growth was reported to be rising at 28% of survey respondents’ firms, a bit below the historical average. While most respondents pulled back on their capital spending plans for the coming year, all four sectors are still expecting increases. Outlays for computers and communications equipment, as well as structures, are expected to rise in all four sectors in the year ahead, but not as vigorously as projected in the July survey.

Published by the National Association for Business Economics, 1233 20<sup>th</sup> St NW, Ste 505, Washington DC 20036

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- Employment continues to rise at a moderate pace, supporting household incomes. During the third quarter, 26% of respondents reported rising employment at their firms, while only 11% reported job cuts. Over the next six months, 32% of firms are expected to increase payrolls, while 53% hold job counts steady, and 15% make reductions.
- Selling prices firmed a bit in the third quarter, as 29% of firms reported rising prices and only 7% reported falling prices charged. Over the next three months, 33% expect to raise prices, while 14% expect to cut prices.
- Upward pressures on costs that respondents paid for materials eased a bit in the third quarter, but remained intense. Just over half (51%) of respondents reported rising material costs, while only 5% reported falling costs. The sharpest increases were observed in the goods-producing sector.
- Skilled labor remained the only major input that was in short supply in the third quarter. One-third of firms reported a shortage of skilled labor, down from 40% in the July survey. With labor markets beginning to slacken, the share of firms boosting wages and salaries decreased from 42% in the second quarter to 32% in the third quarter.
- Less than half of NABE panelists said they expect inflation-adjusted gross domestic product (real GDP) to grow at an annual rate above 2% in the second half of 2007. Fifty-three percent of respondents expect GDP growth to be below 2%, a more pessimistic view than participants had expressed in the last survey regarding the second half of the year.

Survey respondents are NABE members who work for private sector companies and industry trade associations. Both were classified into industry NAICS codes and then grouped into four sectors as follows: goods-producing; transportation, utilities, information, communications (TUIC); finance, insurance, real estate (FIRE); and services. Industry groupings, beginning with the January 2007 survey, are as follows:

- **Goods-producing:** NAICS 11 Agriculture, forestry, fishery, hunting; 21 Mining; 23 Construction; 31-33 Manufacturing.
- **Transportation Utilities Information Communications (TUIC):** NAICS 22 Utilities; 48-49 Transportation & warehousing; 51 Information—publishing, software, broadcasting, Internet publishing and providers, telecommunications, etc.
- **Finance, Insurance, Real Estate (FIRE):** NAICS 52 Finance and insurance—credit intermediation, including commercial and savings banks, credit unions, mortgage bankers; securities and other financial investments, trust, pension funds; health insurance and other insurance; 53 Real estate, rental, leasing.
- **Services:** NAICS 42 Wholesale trade; 44-45 Retail trade; 54 Professional, scientific, technical services; 62 Health care services; 56 Administrative, support, waste management & remediation services; 71 Art, entertainment, recreation; 72 Accommodations & food service; 81 Other services.

The **net rising index (NRI)** is a diffusion index calculated as the percent reporting rising minus the percent reporting falling. The number of panelists responding to each question is given in parentheses before each table.

The survey originated in 1982 and has been conducted quarterly for 25 years. The survey is one of three taken by NABE; the others are the quarterly NABE Outlook and the semiannual NABE Economic Policy Survey. Founded in 1959, the National Association for Business Economics is the professional association for people who use economics in their work. **Ken Simonson**, Associated General Contractors of America; **Sara Johnson**, Global Insight; **William Strauss**, Federal Reserve Bank of Chicago; and **Paul Thomas**, Intel Corporation, conducted the analysis for this report.

## DETAILED RESULTS

### Industry Demand

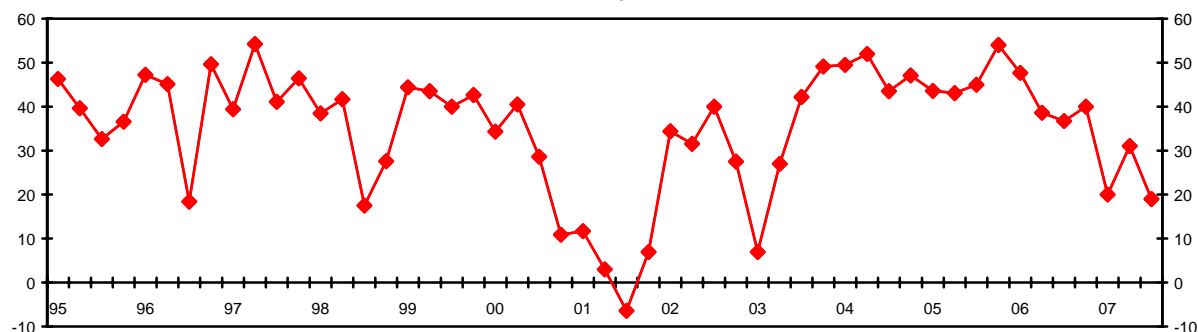
Overall industry demand growth decelerated in the third quarter. The net rising index (NRI) came in at 19, a decrease from the second quarter's NRI of 31. (See Figure 1.) The deceleration in growth was pronounced in the goods-producing industries and in the TUIC and FIRE sectors. Goods-producing industries' performance fell from a mildly positive NRI of 4 to a significant declining posture with an NRI of -15. The TUIC sector fell significantly from an NRI of 50 to 27. The FIRE sector fell from a good performance of 33 to an NRI of only 7. Services, however, actually strengthened slightly from an NRI of 35 to 40.

#### Percent of total respondents (110) reporting that demand is:

<u>Survey Month</u>	<u>Rising</u>	<u>Unchanged</u>	<u>Falling</u>	<u>NRI</u>	
<b>October '07</b>	<b>41</b>	<b>37</b>	<b>22</b>	<b>19</b>	
July '07	45	40	14	31	
April '07	36	47	16	20	
January '07	51	38	11	40	
October '06	54	28	17	37	
<b>By Sector-Oct '07</b>					<u>No. responding</u>
Goods-producing	25	35	40	-15	20
TUIC	47	33	20	27	15
FIRE	30	47	23	7	30
Services	53	33	13	40	45

Note: In this and all tables, percentages may not sum to 100% due to rounding.

**Figure 1 - Industry Demand**  
(Net Rising Index)



This quarter's survey included a new question about the share of company sales from foreign-based operations. Fully 86% of our respondents reported 0 to 25% of their sales recorded outside the U.S. However, 45% of reporting goods-producing companies experienced more than 25% of their sales from foreign sources and 20% reported a majority of their revenues from foreign sales.

#### Percent of total respondents reporting (111) share of company sales from foreign-based operations is:

	<u>Total</u>	<u>Goods-Producing</u>	<u>TUIC</u>	<u>FIRE</u>	<u>Services</u>
0%	50	25	57	45	61
1-25%	36	30	43	39	35
26-51%	10	25	0	13	4
51% or higher	4	20	0	3	0
<i>Number responding</i>	111	20	14	31	46

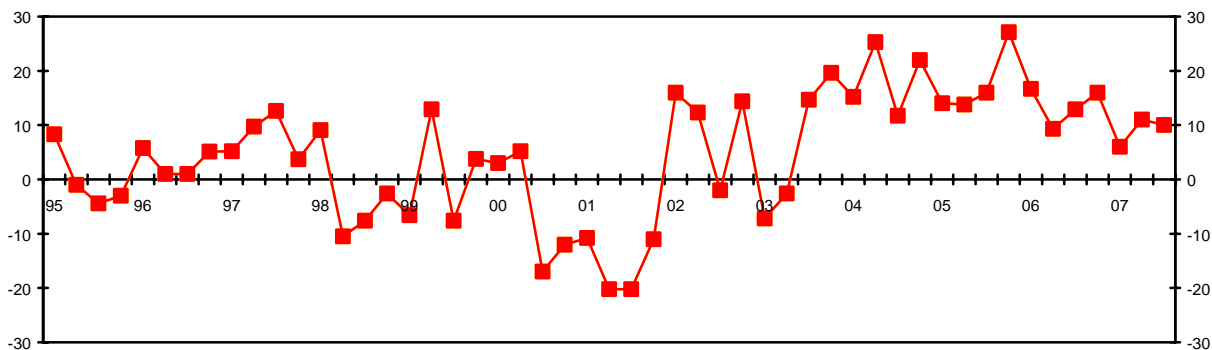
## Profits

The NRI for profit margins improved for the 17<sup>th</sup> consecutive quarter, extending the upswing that began in 2003. Some 28% of respondents indicated that their profits were rising, while a majority (53%) indicated that profits were unchanged and 19% indicated that profits were falling. The net result is a NRI of 10, little changed from the previous quarter. For a second consecutive quarter, firms in the goods-producing sector reported a drop in profit margins (NRI of -12), diverging from favorable results in other sectors.

### Percent of total respondents (102) reporting that profit margins are:

<u>Survey Month</u>	<u>Rising</u>	<u>Unchanged</u>	<u>Falling</u>	<u>NRI</u>	
<b>October '07</b>	<b>28</b>	<b>53</b>	<b>19</b>	<b>10</b>	
July '07	31	50	20	11	
April '07	24	58	18	6	
January '07	31	53	15	16	
October '06	30	53	17	13	
<b>By Sector-Oct '07</b>					<u>No. responding</u>
Goods-producing	<b>18</b>	<b>53</b>	<b>29</b>	<b>-12</b>	17
TUIC	<b>33</b>	<b>50</b>	<b>17</b>	<b>17</b>	12
FIRE	<b>35</b>	<b>45</b>	<b>21</b>	<b>14</b>	29
Services	<b>27</b>	<b>59</b>	<b>14</b>	<b>14</b>	44

**Figure 2 - Profit Margins**  
(Net Rising Index)



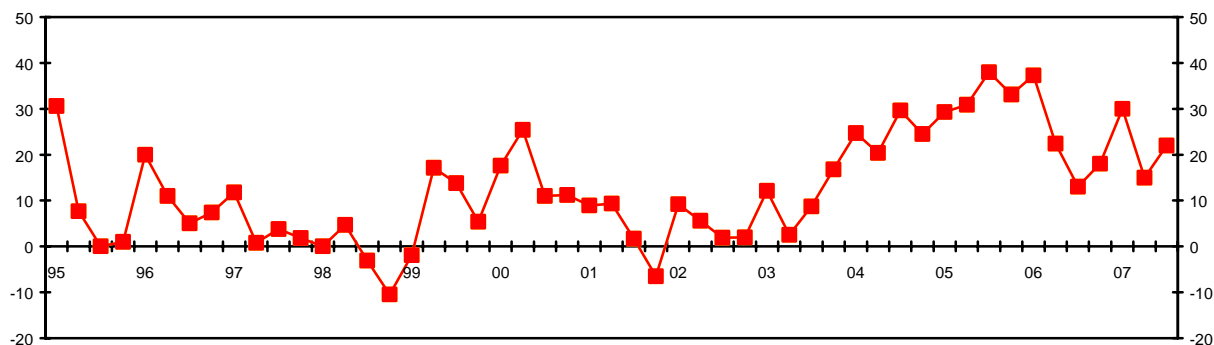
## Prices Charged

Selling prices increased at respondents' firms in the third quarter, with the NRI climbing to 22 from the second-quarter level of 15. This is still below the level reported in the first quarter of 2007. The increase in prices was especially apparent in the energy-intensive TUI sector where the NRI rose from Q2's level of 32 to a new level of 57. No respondents in this sector reported falling prices in Q3. Interestingly, companies in the FIRE sector reported an increase in the NRI from 0 in Q2 to 17 in Q3, perhaps due to the rising perception of credit risk in the past two months. Goods-producing companies reported a decline in their ability to raise prices, however, as might be expected given a deteriorating demand environment for many firms in this sector.

**Percent of total respondents (108) reporting prices charged by respondents are:**

<u>Survey Month</u>	<u>Rising</u>	<u>Unchanged</u>	<u>Falling</u>	<u>NRI</u>	
<b>October '07</b>	<b>29</b>	<b>65</b>	<b>7</b>	<b>22</b>	
July '07	22	71	7	15	
April '07	36	58	6	30	
January '07	25	67	7	18	
October '06	23	66	10	13	
<b>By Sector-Oct '07</b>					<u>No. Responding</u>
Goods-producing	<b>30</b>	<b>55</b>	<b>15</b>	<b>15</b>	20
TUIC	<b>57</b>	<b>43</b>	<b>0</b>	<b>57</b>	14
FIRE	<b>24</b>	<b>69</b>	<b>7</b>	<b>17</b>	29
Services	<b>22</b>	<b>73</b>	<b>4</b>	<b>18</b>	45

**Figure 3 - Prices Charged**  
(Net Rising Index)



Firms reporting price increases reported that about half of all price hike attempts were only partially successful. However, as possible evidence of lessening resistance to price increases, none of these firms experienced complete rollbacks of their price hikes.

**Percent of total respondents (33) reporting price increases were:**

<u>Survey Month</u>	<u>Fully Realized</u>	<u>Partially Realized</u>	<u>Unrealized</u>
<b>October '07</b>	<b>49</b>	<b>51</b>	<b>0</b>
July '07	47	44	9
April '07	47	47	7
January '07	46	46	8
October '06	32	61	8

Expectations for further near-term price increases are strengthening with one in three respondents now expecting price increases and one in seven expecting decreases. The NRI has now reached a level of 19 after hovering around 12 for the previous half-year.

**Percent of total respondents (107) reporting expected change in prices charged over the next three months will:**

	<u>Oct '07</u>	<u>Jul '07</u>	<u>Apr '07</u>	<u>Jan '07</u>	<u>Oct '06</u>
Fall more than 5%	<b>3</b>	3	2	2	3
Fall less than 5%	<b>11</b>	9	9	7	11
Will not change	<b>53</b>	63	66	57	58
Rise less than 5%	<b>26</b>	21	18	25	21
Rise more than 5%	<b>7</b>	4	5	9	8
NRI (all rising less falling)	<b>19</b>	13	12	25	15

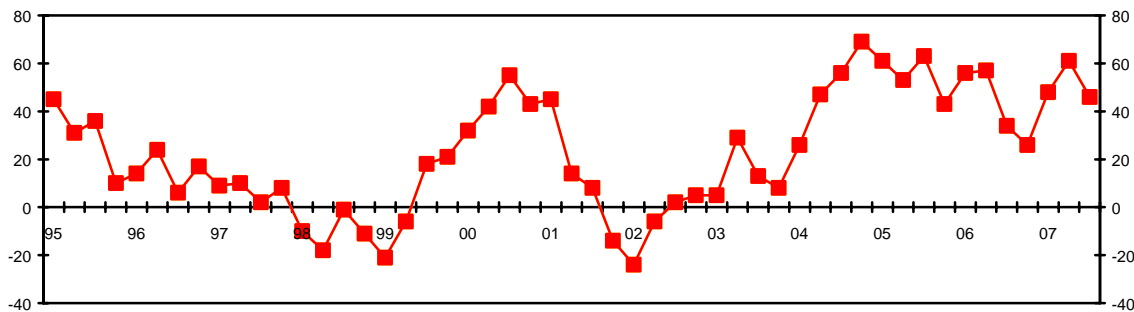
## Costs

Cost pressures reported by respondents have surged this year. (See Figure 4.) However, the NRI moderated in Q3 and returned to the level reached in Q1 with only the goods-producing respondents reporting accelerating cost pressures and with a significant number of firms in the FIRE sector reporting unchanged cost pressures after a reported surge in costs in Q2.

### Percent of total respondents (80) reporting that material costs are:

<u>Survey month</u>	<u>Rising</u>	<u>Unchanged</u>	<u>Falling</u>	<u>NRI</u>	
<b>October '07</b>	<b>51</b>	<b>44</b>	<b>5</b>	<b>46</b>	
July '07	65	31	4	61	
April '07	51	47	3	48	
January '07	30	66	4	26	
October '06	43	47	10	34	
<b>By Sector-Oct '07</b>					<u>No. responding</u>
Goods-producing	<b>68</b>	<b>32</b>	<b>0</b>	<b>68</b>	19
TUIC	<b>64</b>	<b>18</b>	<b>18</b>	<b>46</b>	11
FIRE	<b>31</b>	<b>63</b>	<b>6</b>	<b>25</b>	16
Services	<b>47</b>	<b>50</b>	<b>3</b>	<b>44</b>	34

**Figure 4 - Material Costs**  
(Net Rising Index)



In this survey, 57% of the panelists indicated that they expect non-labor input prices to rise over the next three months; most of the other respondents expect non-labor costs to remain unchanged. Only 8% expect non-labor input prices to fall, about the same level as in the July survey. The outlook for future non-labor input price changes has increased noticeably over the past year. After falling to just 32 in the third quarter of last year, the NRI is now hovering around 50.

### Percent of total respondents (92) reporting expected change in primary non-labor input prices over the next three months:

	<u>Oct '07</u>	<u>Jul '07</u>	<u>Apr '07</u>	<u>Jan '07</u>	<u>Oct '06</u>
Fall more than 5%	2	2	1	1	4
Fall less than 5%	6	5	2	7	12
Will not change	34	33	48	45	36
Rise less than 5%	51	53	42	43	47
Rise more than 5%	6	7	7	4	1
Net rising (all rising less falling)	49	53	46	39	32

The NRI for wages and salaries moderated to 31 with a somewhat typical third-quarter increase in the number of respondents reporting unchanged wages and salaries.

### Percent of total respondents (106) reporting that wages and salaries are:

<u>Survey month</u>	<u>Rising</u>	<u>Unchanged</u>	<u>Falling</u>	<u>NRI</u>
<b>October '07</b>	<b>32</b>	<b>67</b>	<b>1</b>	<b>31</b>
July '07	42	56	2	40
April '07	36	61	3	33
January '07	35	64	2	33
October '06	24	75	1	23

## Shortages

Skilled labor remains the only major input in short supply. One-third (33%) of NABE panelists reported a shortage of skilled labor in October, down from 40% in July. This shortage is most prevalent in goods-producing and services industries. Only a small fraction of total respondents reported shortages of unskilled labor, raw materials, intermediate inputs, or capital goods. In manufacturing industries, however, 15% mentioned shortages of intermediate inputs and 10% noted shortages of raw materials.

### Percent of total (101) reporting shortages in survey month:

Type of input	Oct '07	Jul '07	Apr '07	Jan '07	Oct '06
Skilled labor	33	40	35	35	30
Unskilled labor	5	8	6	8	3
Intermediate inputs	4	4	4	4	7
Raw material inputs	4	5	4	2	3
Capital goods	4	1	2	2	2
No shortages	50	54	57	61	62

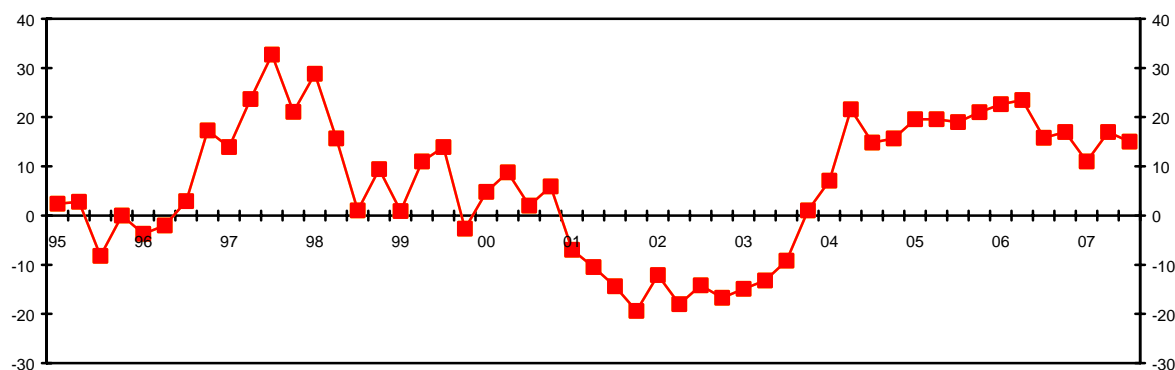
## Employment

Employment continued to rise at a moderate pace in the third quarter, supporting household incomes. The NRI was 15, down slightly from 18 in the July survey, as fewer firms were hiring. (See Figure 5.) Nearly two-thirds (63%) reported no change in employment, while 26% added workers and 11% reduced payrolls. Goods-producing firms shed jobs for a third consecutive quarter. Meanwhile, TUIC overtook the services sector as the leader in job creation with a NRI of 36. The subprime mortgage meltdown began to have an impact on FIRE jobs, as the sector's NRI dropped to 12 in the third quarter from 25 in the second quarter.

### Percent of total respondents (112) reporting that employment is:

Survey Month	Rising	Unchanged	Falling	NRI	
October '07	26	63	11	15	
July '07	32	55	14	18	
April '07	23	65	12	11	
January '07	29	60	12	17	
October '06	27	63	11	16	
July '06	34	56	11	23	
<b>By Sector-Oct'07</b>					<i>No. responding</i>
Goods-producing	10	75	15	-5	20
TUIC	43	50	7	36	14
FIRE	28	56	16	12	32
Services	26	67	6	20	46

**Figure 5 - Employment**  
(Net Rising Index)



The survey suggests that employment will continue to rise over the next six months. About one-third (32%) of respondents expect employment at their firms to increase, down from 41% in July but comparable to results of the three prior surveys. Another 53% anticipate no change in employment, while 15% expect reductions (of which two-thirds are from attrition and one-third from layoffs). Hiring plans were scaled back significantly in the FIRE sector (where the NRI index slumped to 15 in October from 41 in July) and in the TUIC sector (where the NRI retreated to 22 from 35). Job growth appears to be holding up in services, where the NRI remained at 29. Consistent with the two previous surveys, the NRI for future employment was -15 in the goods-producing sector, largely due to expected attritions at manufacturing firms.

**Percent of total respondents (110) reporting that in the next six months employment will:**

	<u>Oct '07</u>	<u>Jul '07</u>	<u>Apr '07</u>	<u>Jan '07</u>	<u>Oct '06</u>
Increase	<b>32</b>	41	29	33	29
No change	<b>53</b>	42	52	52	54
Decrease through attrition	<b>10</b>	14	15	12	11
Decrease through significant layoffs	<b>5</b>	3	4	3	5
NRI (increase less all decreases)	<b>17</b>	24	10	18	13
<b><u>By Sector-Oct '07</u></b>	<b><u>Goods-Producing</u></b>	<b><u>TUIC</u></b>	<b><u>FIRE</u></b>	<b><u>Services</u></b>	
Increase	<b>15</b>	<b>36</b>	<b>37</b>	<b>34</b>	
No change	<b>55</b>	<b>50</b>	<b>41</b>	<b>61</b>	
Decrease through attrition	<b>25</b>	<b>7</b>	<b>9</b>	<b>5</b>	
Decrease through significant layoffs	<b>5</b>	<b>7</b>	<b>13</b>	<b>0</b>	
NRI (increase less all decreases)	<b>-15</b>	<b>22</b>	<b>15</b>	<b>29</b>	
<i>Number responding</i>	<i>20</i>	<i>14</i>	<i>32</i>	<i>44</i>	

In the October survey, respondents were asked about the number of employees at their firms. In all but the services sector, the NABE sample is dominated by large firms, employing from 101 to 1,000 persons. In services, however, 57% of respondents reported that their firms employ 10 or fewer persons, while only 20% employ over 100 persons.

**Percent of total respondents (112) reporting the employment size of firm:**

	<u>Total</u>	<u>Goods-Producing</u>	<u>TUIC</u>	<u>FIRE</u>	<u>Services</u>
1	<b>8</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20</b>
2-10	<b>19</b>	<b>0</b>	<b>7</b>	<b>10</b>	<b>37</b>
11-100	<b>20</b>	<b>5</b>	<b>13</b>	<b>26</b>	<b>24</b>
101-1,000	<b>51</b>	<b>85</b>	<b>80</b>	<b>61</b>	<b>20</b>
Greater than 1,000	<b>3</b>	<b>10</b>	<b>0</b>	<b>3</b>	<b>0</b>
<i>Number responding</i>	<i>112</i>	<i>20</i>	<i>15</i>	<i>31</i>	<i>46</i>



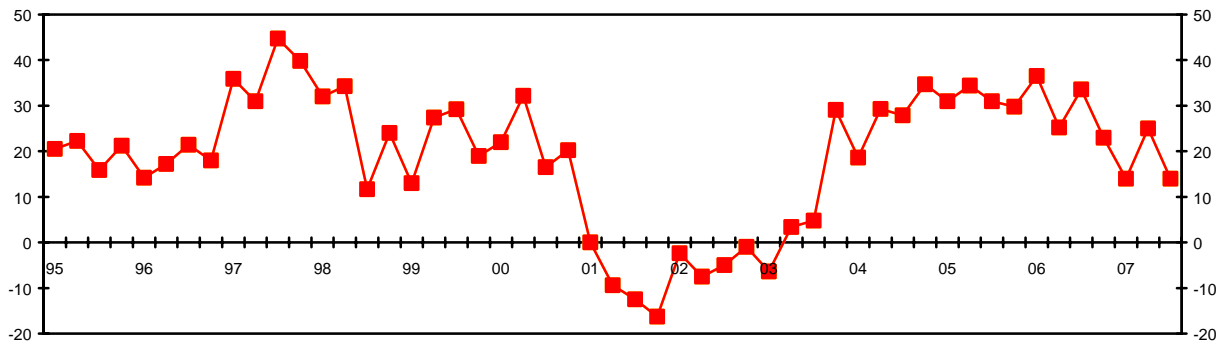
## Capital Spending

Capital spending growth among respondents declined in the October survey back to the relatively low reading recorded in April. The capital spending NRI fell to 14, a bit below its historical average of 15. (See Figure 6.) The fall in the NRI was due to a decline in those respondents indicating rising capital spending and an increase in those who said that capital spending was falling. The NRI delivered its 18<sup>th</sup> consecutive positive quarter but was below the average net gain of 25 over this period. The softening of capital spending reflected declines in NRI for the goods-producing, TUIC, and FIRE sectors. The services sector was the lone sector to have its NRI edge higher in October.

### Percent of total reporting (105) that capital spending is:

<u>Survey Month</u>	<u>Rising</u>	<u>Unchanged</u>	<u>Falling</u>	<u>NRI</u>	
<b>October '07</b>	<b>28</b>	<b>59</b>	<b>13</b>	<b>14</b>	
July '07	33	59	8	25	
April '07	25	64	11	14	
January '07	32	59	9	23	
October '06	41	52	7	34	
July '06	35	54	10	25	
<b>By Sector-Oct '07</b>					<u>No. responding</u>
Goods-producing	<b>24</b>	<b>65</b>	<b>12</b>	<b>12</b>	17
TUIC	<b>57</b>	<b>36</b>	<b>7</b>	<b>50</b>	14
FIRE	<b>21</b>	<b>69</b>	<b>10</b>	<b>10</b>	29
Services	<b>24</b>	<b>58</b>	<b>18</b>	<b>7</b>	45

**Figure 6 - Capital Spending**  
(Net Rising Index)



Survey respondents also lowered their capital spending plans for the next year. Forty-three percent reported that they expect capital spending to increase over the next 12 months, down from 50% in the July survey. The NRI for this measure, at 28, was down from 41 in the July survey, with all sectors still remaining positive. The NRI for goods-producing and TUIC were unchanged from July. The FIRE sector had the largest drop in the NRI, falling from 62 to 29. The services sector's NRI fell from 28 in July to 23 in October.

### Percent of total reporting (102) that capital spending over the next 12 months will:

	<u>Total</u>	<u>Goods-Producing</u>	<u>TUIC</u>	<u>FIRE</u>	<u>Services</u>
Increase more than 10%	<b>13</b>	<b>12</b>	<b>15</b>	<b>7</b>	<b>16</b>
Increase less than 10%	<b>30</b>	<b>29</b>	<b>46</b>	<b>36</b>	<b>23</b>
Stay about the same	<b>42</b>	<b>41</b>	<b>31</b>	<b>43</b>	<b>45</b>
Decrease less than 10%	<b>9</b>	<b>6</b>	<b>0</b>	<b>14</b>	<b>9</b>
Decrease more than 10%	<b>6</b>	<b>12</b>	<b>8</b>	<b>0</b>	<b>7</b>
NRI (all increases less decreases)	<b>28</b>	<b>23</b>	<b>53</b>	<b>29</b>	<b>23</b>
Number reporting	102	17	13	28	44

Capital spending plans for computers and communications equipment (C&C) over the next 12 months pulled back from expectations in July. The October NRI for C&C was 25, down from July's 40. Thirty-nine percent of respondents reported that they plan to increase C&C spending, down from 48% in July. The FIRE sector reported the largest drop in NRI. In July, 72% of the FIRE sector were planning to increase spending on C&C, and this fell to 33% in the current survey. The TUIC sector also experienced a sharp pull-back, with the NRI falling 29 points to 23 in October.

**Percent of total reporting (106) that spending on computers and communications equipment over the next 12 months will:**

	<u>Total</u>	<u>Goods-Producing</u>	<u>TUIC</u>	<u>FIRE</u>	<u>Services</u>
Increase more than 10%	11	6	8	10	16
Increase less than 10%	28	17	23	33	31
Stay about the same	46	56	61	47	38
Decrease less than 10%	9	22	8	10	4
Decrease more than 10%	5	0	0	0	11
NRI (all increases less decreases)	25	1	23	33	32
<i>Number reporting</i>	106	18	13	30	45

Capital spending plans for structures over the next 12 months declined from its reading in July. The October NRI for structures was 18, lower than the 29 reported in July, but still better than the 8 recorded in April. All sectors expect to increase spending over the next twelve months. The TUIC sector reported the biggest decline, with an NRI that fell from 44 in July to 22 in October.

**Percent of total reporting (80) that spending on structures over the next 12 months will:**

	<u>Total</u>	<u>Goods-Producing</u>	<u>TUIC</u>	<u>FIRE</u>	<u>Services</u>
Increase more than 10%	10	11	11	8	10
Increase less than 10%	20	28	44	26	3
Stay about the same	58	44	33	48	80
Decrease less than 10%	7	11	0	13	3
Decrease more than 10%	5	6	11	4	3
NRI (all increases less decreases)	18	22	44	17	7
<i>Number reporting</i>	80	18	9	23	30

## **Second-half 2007 Forecast Assumptions**

In their second look at the forecasts for the second half of 2007, survey respondents saw lower growth ahead. Previously, 76% expected growth between 2% and 4%; that proportion has fallen to 47%. The majority of respondents (52%) believe growth will be between 0% and 2%, more than double the amount in July. In general, the outlook for the second half is more downbeat than was respondents' outlook in the last several surveys.

### **Percent of total (107) reporting 2007 GDP will grow:**

	<u>&lt;0%</u>	<u>0-2%</u>	<u>2-3%</u>	<u>3-4%</u>	<u>4-5%</u>	<u>&gt;5%</u>
<b>Oct '07 (second-half forecast)</b>	<b>1</b>	<b>52</b>	<b>40</b>	<b>7</b>	<b>0</b>	<b>0</b>
July '07 (second-half forecast)	0	24	62	14	0	0
April '07 (first-half forecast)	1	27	68	4	0	0
Jan '07 (first-half forecast)	1	26	66	5	3	0
Oct '06 (second-half forecast)	0	17	68	15	0	0
July '06 (second-half forecast)	1	10	60	28	1	0

More than half of survey panelists said their forecast for 2007 became more pessimistic between July and October. But 12% of respondents were more optimistic than in their previous forecast, while 33% were unchanged.

### **Percent of total (112) reporting current forecast for 2007 in comparison with previous forecast is:**

	<b>Oct '07</b>	<b>Jul'07</b>	<b>Apr'07</b>	<b>Jan '07</b>	<b>Oct '06</b>
Significantly more optimistic	<b>1</b>	<b>1</b>	1	3	1
Somewhat more optimistic	<b>11</b>	<b>20</b>	12	19	12
Unchanged	<b>33</b>	<b>51</b>	54	47	49
Somewhat more pessimistic	<b>53</b>	<b>28</b>	31	29	36
Significantly more pessimistic	<b>3</b>	<b>0</b>	2	2	3

## **Housing**

Fifty-four percent of respondents expect a substantial slowdown (more than 5%) in housing in the next six months, with another 43% expecting a mild slowdown (5% or less), and only two percent do not expect a further slowdown. Whether they expect a slowdown to be mild or substantial, half of respondents expect an impact on their business, whereas 46% expect little or no impact on their business. Respondents in goods-producing and TUIC industries were more likely than those in other sectors to expect an impact on their own business.

### **Percent of total (103) expecting housing to slow in the next six months and expected effect on firm:**

	<u>Total</u>	<u>Goods-Producing</u>	<u>TUIC</u>	<u>Finance</u>	<u>Services</u>
Yes, I expect a substantial slowdown (>5%), with an impact on my business	<b>30</b>	<b>44</b>	<b>36</b>	<b>21</b>	<b>29</b>
Yes, I expect a substantial slowdown, but little or no impact on my business	<b>24</b>	<b>17</b>	<b>21</b>	<b>24</b>	<b>29</b>
I expect a mild slowdown (0-5%), with an impact on my business	<b>21</b>	<b>22</b>	<b>43</b>	<b>21</b>	<b>14</b>
I expect a mild slowdown, but little or no impact on my business	<b>22</b>	<b>11</b>	<b>0</b>	<b>31</b>	<b>29</b>
I do not expect a (further) housing slowdown	<b>2</b>	<b>6</b>	<b>0</b>	<b>3</b>	<b>0</b>
<i>Number responding</i>	<i>103</i>	<i>18</i>	<i>14</i>	<i>29</i>	<i>42</i>

## **Credit Conditions**

While the majority of respondents (56%) indicated that the tightening credit conditions have not affected their business, just over a third (36%) reported that it has affected them in a negative manner and eight percent said it had a positive effect on their business. Half of the financial sector's firms and 45% of the goods-producing firms reported a negative impact on their business.

### **Percent of total (112) reporting on how the tightening of credit conditions has affected business:**

	<u>Total</u>	<u>Goods-Producing</u>	<u>TUIC</u>	<u>Finance</u>	<u>Services</u>
Yes, negatively	<b>36</b>	<b>45</b>	<b>36</b>	<b>50</b>	<b>22</b>
Yes, positively	<b>8</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>13</b>
No effect	<b>56</b>	<b>55</b>	<b>64</b>	<b>41</b>	<b>65</b>
<i>Number responding</i>	<i>112</i>	<i>20</i>	<i>14</i>	<i>32</i>	<i>46</i>

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