NABE Industry Survey

National Association For Business Economics

CELEBRATING NABE'S 50 YEARS OF LEADERSHIP

July 2008

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NABE Panel: Continued Caution but Some Signs of Improvement

The July 21, 2008, report presents the responses of 101 NABE members to a survey, conducted between June 19 and July 10, on business conditions in their firm or industry, and reflects second-quarter 2008 results and the near-term outlook.

This NABE survey provides insights into these questions:

- How did business activity by sector in the second quarter of 2008 compare to the first quarter? What's ahead? (pp. 3 and 12)
- Are costs for material inputs and labor still rising? Are firms achieving price and/or profit increases? (pp. 4-7)
- Are hiring and capital spending still rising? What is the outlook for the coming 6-12 months? (pp. 7-11)
- Will the housing bust continue? Will it have a widespread impact on other sectors? (p. 12)
- How are tightening credit conditions affecting businesses? Have the Fed's initiatives made a difference? (pp. 12-13)
- How has the decline in the dollar affected businesses and what are their expectations for 2008? (p.13)

COMMENTS: "Respondents to the July NABE Industry Survey were more varied than in the decidedly downbeat April survey about recent results and the next few quarters, but they were far from ebullient," said **Ken Simonson, Chief Economist, Associated General Contractors of America.** "More firms reported higher sales, but also higher materials costs and lower profits, in the second quarter than in the first quarter. Respondents were evenly split between those expecting the economy to grow by more than 1% or less in the second half of the year; only 10% expect the economy to shrink between now and December. Yet, nearly half said they had become more pessimistic than in April about the year as a whole. A record 75% paid more for materials last quarter and expect to pay more this quarter, as well. Hiring plans for the next six months are cautious, although slightly more firms plan to add jobs than cut them. Capital spending plans were nearly unchanged from April, with more firms planning increases than cuts in capital spending. Most firms expected a continued housing slowdown but fewer expect it to be substantial. More respondents than in the past two surveys said tighter credit market conditions have affected their business, negatively for the most part."

HIGHLIGHTS

- Forty-four percent of NABE panelists said they expect inflation-adjusted gross domestic product (real GDP) to grow at an annual rate above 1% in the second half of 2008; 45% expect sluggish growth (0-1%); 10% expect a decline in real GDP. Forty-five percent of panelists said they were more pessimistic about the outlook for the year as a whole compared with their views in April, while 13% were more optimistic than before.
- Demand for goods and services increased at 44% of respondents' firms and fell at 19%, a rebound from the dramatically low levels of the first quarter back to the modest ranges reported during 2007. Such a result is consistent with other evidence that the U.S. economy may have avoided a recession so far this year but is growing below trend. Goods-producing firms recovered slightly to the no-growth level of late 2007. Services-sector firms reported dramatically better results this quarter and finance, insurance, real estate (FIRE) moderately better results.
- A record 75% of respondents reported paying more for materials in the past quarter, the highest share since the question was first asked in 1994. In contrast, only 25% of panelists said wages increased last quarter, down from 36% in the first quarter. More than three-quarters (77%) expect non-labor input prices to rise in the next three months, while only 2% expect a decrease.
- Weakening U.S. market conditions and soaring commodity prices are squeezing profit margins. For a second consecutive quarter, reports of falling profit margins (30% of respondents) outnumbered reports of rising margins (17%).
- More than a third (35%) of respondents said their firms raised prices in the latest quarter, the highest such share since April 2007.

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Price increases were especially prevalent in the goods-producing and transportation, utilities, information, communications (TUIC) sectors. Even more respondents (41%) expect to raise prices in the third quarter than in April, when 34% expected to raise prices in the second quarter.

- Tight credit market conditions appear to continue to be having an impact on the economy. Forty-one percent of respondents stated that tightening credit conditions have negatively affected their business, up from 39% in April and 26% in January. Nearly one-third of respondents stated that actions by the Federal Reserve of either lowering interest rates or liberalizing credit access had a positive effect on their business, with the finance sector experiencing the greatest impact.
- The share of respondents who expect a further substantial slowdown in housing markets over the next six months dropped to 29% from 45% in April. Conversely, the percentage of respondents expecting a mild slowdown in housing rose to 58% from 47% in April. Respondents who expect a further slowdown to affect their companies were most prevalent in the TUIC (78%) and goods-producing (50%) sectors.
- The percentage of respondents reporting capital spending growth edged lower from the first to the second quarter of 2008, although spending was still close to its historical average. Overall capital spending plans for the coming year were unchanged from the last survey. By spending type, expectations remained unchanged on balance for computer and communications equipment outlays and edged higher for structures investment, although the TUIC and FIRE sectors reported declines in spending plans. Only 15% of respondents said they would add or accelerate investment as a result of depreciation provisions of the economic “stimulus” tax law.
- Employment levels are holding up reasonably well, especially in the services sector. During the second quarter, 27% of all respondents reported rising employment at their firms, while only 12% reported job cuts. The resulting NRI of 15 represented an improvement from 8 in the April survey. Hiring plans for the next six months are cautious: 29% of firms plan to increase employment while 20% will cut jobs.
- Skilled labor remains the only major input that is in short supply. Forty percent of firms reported a shortage of skilled labor, little change from the quarterly surveys of the past two years.

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:

- <u>Goods-producing</u>: NAICS 11 Agriculture, forestry, fishery, hunting; 21 Mining; 23 Construction; 31-33 Manufacturing.
- <u>Transportation, Utilities, Information, Communications (TUIC)</u>: NAICS 22 Utilities; 48-49 Transportation & warehousing; 51 Information–publishing, software, broadcasting, Internet publishing and providers, telecommunications, etc.
- <u>Finance, Insurance, Real Estate (FIRE)</u>: 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.
- <u>Services</u>: 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 charts and many of the tables show a **net rising index (NRI)**, which is a diffusion index calculated as the percent reporting rising minus the percent reporting falling. Thus, the index has a possible range of +100 (all positive responses) to -100 (all negative), with 0 indicating an equal mix. All results are shown rounded to the nearest whole percentage; thus, details may not add to 100 and the NRI may not match the difference in rounded components. Shaded areas on charts indicate recessions.

A total of 101 panelists sent in responses; the number responding to each question is given in parentheses before each table. Seven percent of the respondents were from single-person firms; 22% in firms with 2-10 employees; 22% in firms with 11-100 employees; 23% in firms with 101-1,000 employees; and 27% in firms with more than 1,000 employees. Half of the firms had no sales from foreign-based operations; 32% had one-quarter or less of sales from abroad; 8% had between one-quarter and one-half of sales from abroad; and 10% had more than half from abroad.

The survey began in 1982 and has been conducted quarterly for 26 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

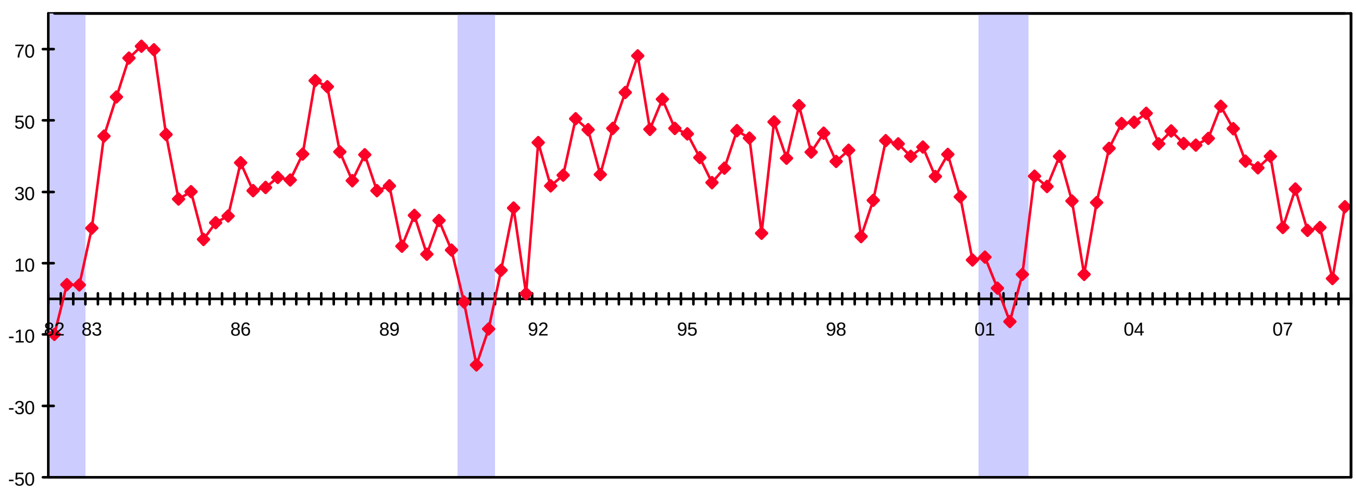
Overall industry demand growth bounced back from the recessionary levels of Q1 to the levels of the first half of 2007. The net rising index (NRI)—the difference between the percent of respondents who reported rising minus falling demand—gained 20 points from last quarter, the highest single quarter surge since 2003, but it remains at a fairly subdued level of 26 (See Figure 1). The NRI is consistent with other evidence that the U.S. economy has avoided a recession so far this year but is still below trend growth. Goods-producing firms reported stalled demand, making four consecutive quarters of no growth. The TUIC sector fell from 10 to -6; the FIRE sector interestingly moved from 18 to 31, and services bounced all the way back from 0 to 46. Hence, with the exception of the sluggish goods-producing sector, the economy is exhibiting a good deal of sector volatility with some sectors falling while others climb.

Percent of total respondents (97) reporting that demand is:

Survey Month	Rising	Unchanged	Falling	NRI	
July '08	**44**	**37**	**19**	**26**	
April '08	28	49	23	6	
January '08	38	44	18	20	
October '07	41	37	22	19	
July '07	45	40	14	31	
By Sector- Jul '08					*No. responding*
Goods-producing	**29**	**43**	**29**	**0**	*14*
TUIC	**33**	**28**	**39**	**-6**	*18*
FIRE	**42**	**46**	**11**	**31**	*26*
Services	**56**	**33**	**10**	**46**	*39*

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

Figure 1 - Industry Demand
Net Rising Index



In this and all figures, shaded areas represent recessions.

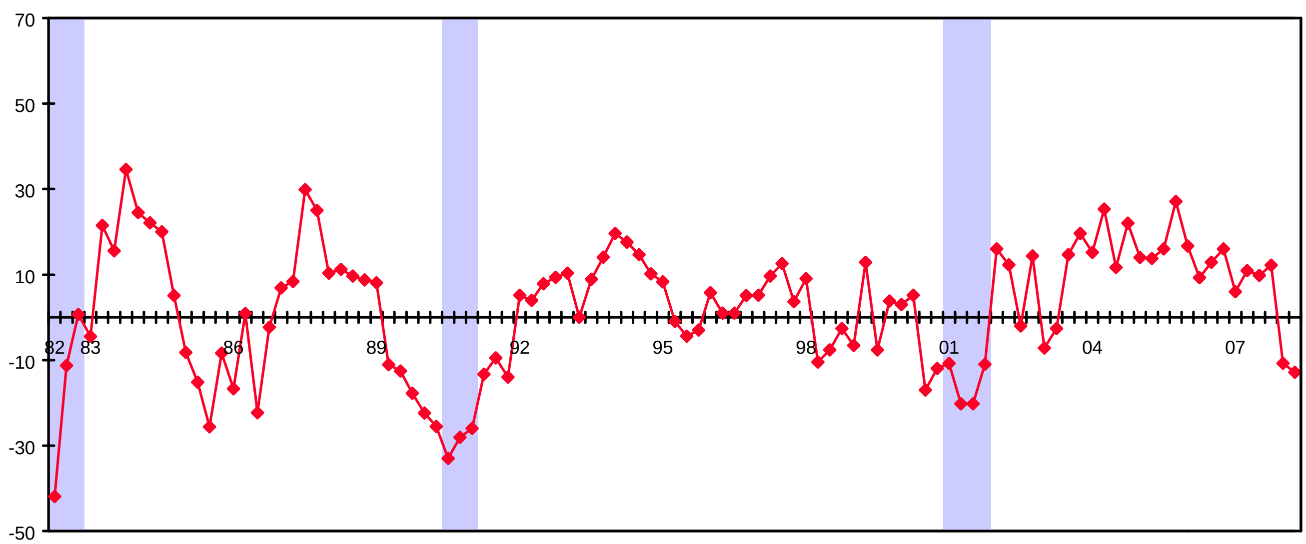
Profits

Weakening U.S. market conditions and soaring commodity prices are squeezing profit margins. For a second consecutive quarter, reports of falling profit margins outnumbered reports of rising margins. (See Figure 2.) Only 17% of respondents indicated that their profit margins increased during the past quarter, while 30% noted falling margins and 53% reported no change. While all major sectors posted weaker results in the latest quarter, falling profit margins were most prevalent in goods-producing and financial industries. Profit margins decreased for a fifth consecutive quarter for goods-producing firms and their NRI deteriorated from -10 to -29.

Percent of total respondents (93) reporting that profit margins are:

Survey Month	Rising	Unchanged	Falling	NRI	
July '08	**17**	**53**	**30**	**-13**	
April '08	18	54	28	-11	
January '08	26	61	13	12	
October '07	28	53	19	10	
July '07	31	50	20	11	
By Sector- Jul '08					*No. responding*
Goods-producing	**14**	**43**	**43**	**-29**	*14*
TUIC	**13**	**67**	**20**	**-7**	*15*
FIRE	**12**	**54**	**35**	**-23**	*26*
Services	**24**	**50**	**26**	**-3**	*38*

Figure 2 - Profit Margins
Net Rising Index



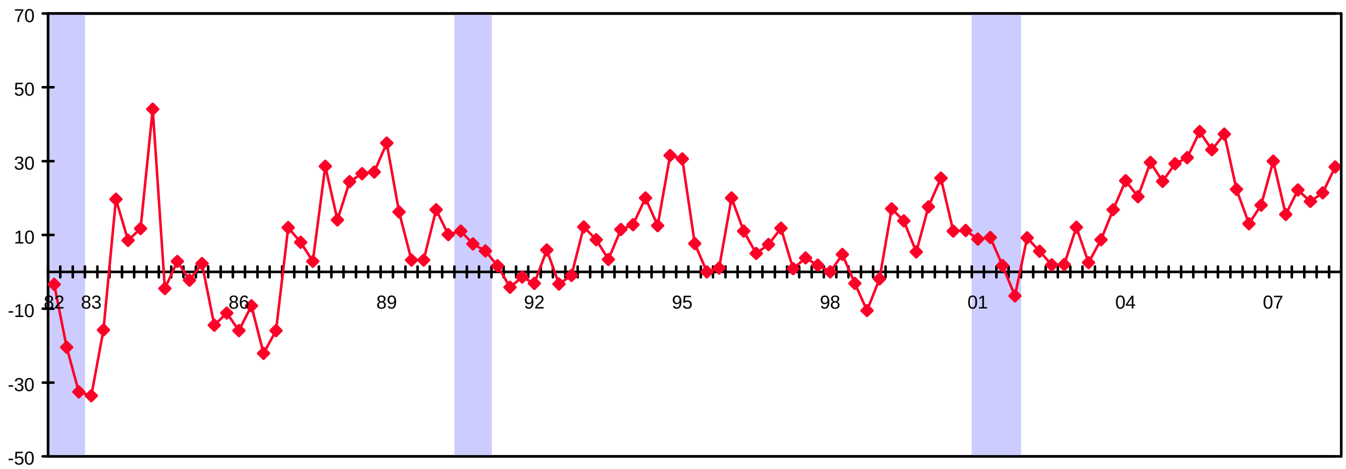
Prices Charged

Selling prices at respondents' firms increased again, on balance, with an NRI of 28, the highest rate since the first quarter of 2007. (See Figure 3.) Price increases were especially prevalent among firms in the goods-producing and TUIC sectors.

Percent of total respondents (95) reporting prices charged by their firms are:

Survey Month	Rising	Unchanged	Falling	NRI	
July '08	**35**	**59**	**6**	**28**	
April '08	29	63	8	21	
January '08	25	70	5	19	
October '07	29	65	7	22	
July '07	22	71	7	15	
April '07	36	58	6	30	
By Sector-Jul '08					*No. Responding*
Goods-producing	**64**	**29**	**7**	**57**	*14*
TUIC	**62**	**38**	**0**	**62**	*16*
FIRE	**19**	**69**	**11**	**8**	*26*
Services	**23**	**72**	**5**	**18**	*39*

Figure 3 - Prices Charged
Net Rising Index



Nearly half (47%) of the respondents reporting price increases said that their price hike attempts were fully successful. That was a higher rate than in the January or April surveys and was in line with several previous surveys.

Percent of total respondents (36) reporting price increases were:

Survey Month	Fully Realized	Partially Realized	Unrealized
July '08	**47**	**50**	**3**
April '08	44	53	3
January '08	30	70	0
October '07	49	51	0
July '07	47	44	9

Expectations for further near-term price increases rebounded from a sharp drop in the previous survey. About 41% of respondents in the July survey expected the prices their companies charge to rise in the next three months, compared to only 34% who held that view in the April report. There was also a slight dip in the percentage of respondents who expect their firms to reduce prices. As a result, the NRI rose to 29, from 21 in the first quarter.

Percent of total respondents (94) reporting they expect prices charged over the next three months will:

	Jul '08	Apr '08	Jan '08	Oct '07	Jul '07
Fall more than 5%	**5**	3	2	3	3
Fall less than 5%	**7**	10	9	11	9
Will not change	**47**	53	41	53	63
Rise less than 5%	**30**	29	33	26	21
Rise more than 5%	**11**	5	14	7	4
NRI (all rising less falling)	**29**	21	36	19	13

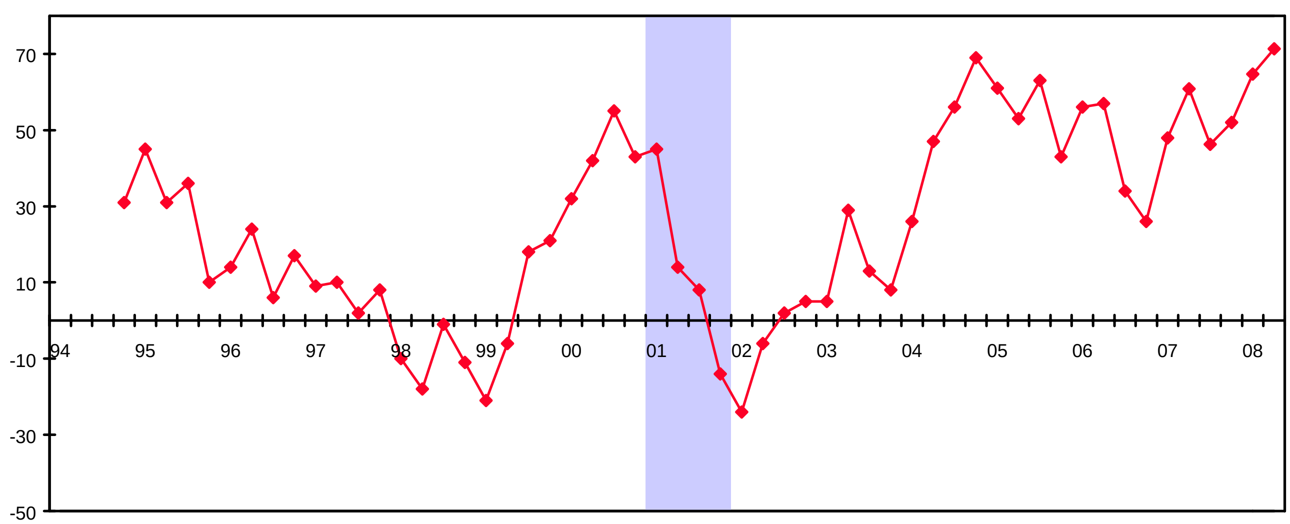
Costs

A record 75% of respondents reported higher materials costs in the past quarter, the most since the question was first asked in 1994. The NRI of 71 was also a record, topping the previous high of 69 set in the last quarter of 2004. As in April, a majority of respondents in all four sectors reported higher materials costs.

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

Survey month	Rising	Unchanged	Falling	NRI	
July '08	**75**	**21**	**4**	**71**	
April '08	66	33	1	65	
January '08	52	48	0	52	
October '07	51	44	5	46	
July '07	65	31	4	61	
By Sector-Jul '08					*No. responding*
Goods-producing	**93**	**7**	**0**	**93**	*15*
TUIC	**88**	**12**	**0**	**88**	*16*
FIRE	**81**	**12**	**6**	**75**	*16*
Services	**58**	**36**	**6**	**52**	*33*

Figure 4 - Material Costs
Net Rising Index



More than three-fourths (77%) of panelists expect non-labor input prices to rise in the next three months. Only 2% of respondents expect such prices to fall.

Percent of total respondents (87) reporting expected change in primary non-labor input prices over the next three months:

	Jul '08	Apr '08	Jan '08	Oct '07	Jul '07
Fall more than 5%	**0**	0	1	2	2
Fall less than 5%	**2**	3	5	6	5
Will not change	**21**	28	31	34	33
Rise less than 5%	**61**	61	49	51	53
Rise more than 5%	**16**	7	14	6	7
Net rising (all rising less falling)	**75**	65	57	49	53

Wage pressures subsided, as only one-quarter of respondents reported rising wages and salaries, nearly a two-year low and down from 36% in April. The percentage who reported a fall in wages and salaries matched the April figure of 5%, a four-year high.

Percent of total respondents (97) reporting that wages and salaries are:

Survey month	Rising	Unchanged	Falling	NRI
July '08	**25**	**70**	**5**	**20**
April '08	36	59	5	31
January '08	30	70	0	30
October '07	32	67	1	31
July '07	42	56	2	40

Shortages

Skilled labor remains the only major input in short supply. Some 40% of NABE panelists reported a shortage of skilled labor in July, little changed from the survey results of the past two years. This shortage is pervasive across industries. Only small fractions of total respondents reported shortages of unskilled labor, raw materials, intermediate inputs, or capital goods. In manufacturing industries, however, 27% mentioned shortages of intermediate inputs, and 18% noted shortages of raw materials.

Percent of total (93) reporting shortages in survey month:

Type of input	**Jul '08**	Apr '08	Jan '08	Oct '07	Jul '07
Skilled labor	**40**	38	37	33	40
Unskilled labor	**5**	4	4	5	8
Intermediate inputs	**6**	6	7	4	4
Raw material inputs	**5**	3	5	4	5
Capital goods	**0**	2	1	4	1
No shortages	**56**	58	55	50	54

Note: Columns sum to more than 100% if respondents listed multiple shortages.

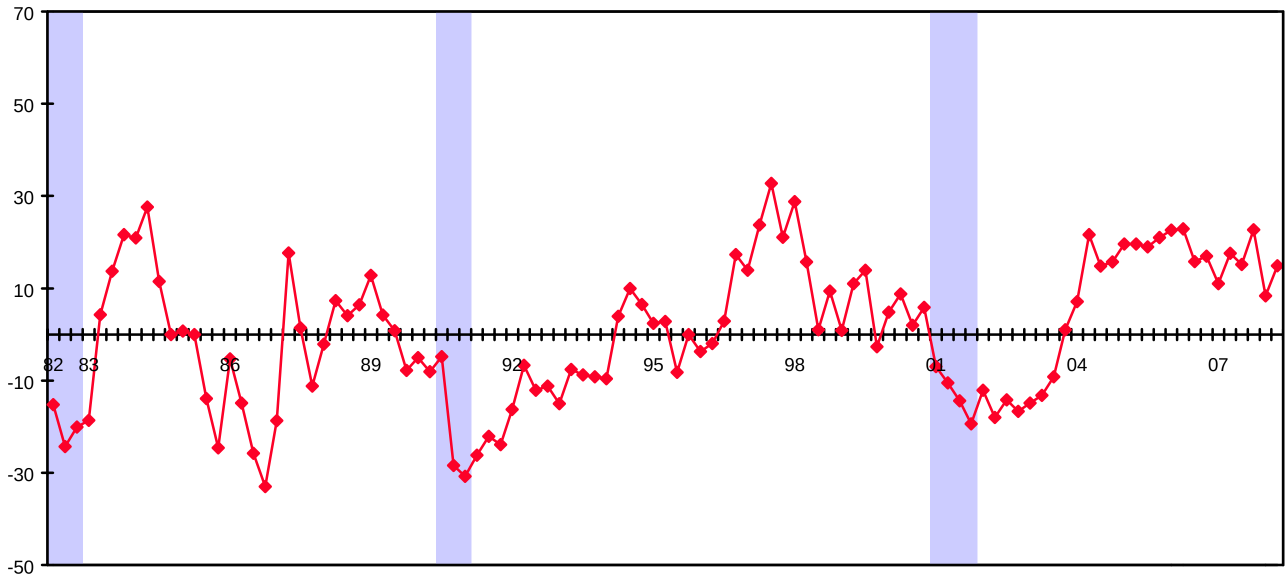
Employment

While national payroll employment declined in each of the first six months of 2008, employment at firms in the NABE survey has generally been steady or rising. In the latest survey, 61% reported no change in employment, while 27% added workers and only 12% reduced payrolls. Thus, the NRI improved from 8 in the April survey to 15 in July. (See Figure 5.) Services continue to lead all sectors in job creation with an NRI of 26. Goods-producing firms registered a positive NRI for the first time since October 2006.

Percent of total respondents (101) reporting that employment is:

Survey Month	Rising	Unchanged	Falling	NRI	
July '08	**27**	**61**	**12**	**15**	
April '08	23	62	15	8	
January '08	30	63	7	23	
October '07	26	63	11	15	
July '07	32	55	14	18	
By Sector-Jul '08					*No. responding*
Goods-producing	**27**	**53**	**20**	**7**	*15*
TUIC	**28**	**56**	**17**	**11**	*18*
FIRE	**24**	**59**	**17**	**7**	*29*
Services	**28**	**69**	**3**	**26**	*39*

Figure 5 - Employment
Net Rising Index



Employment Outlook

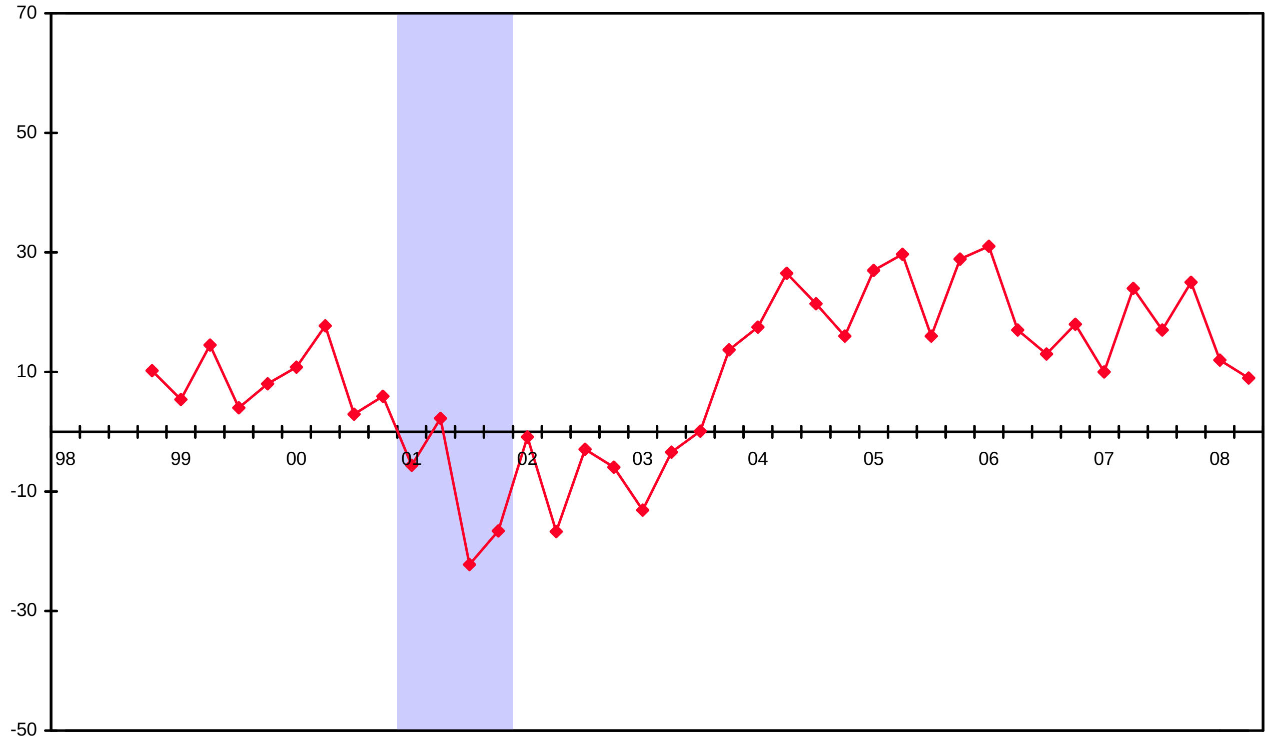
The survey suggests cautious but still positive hiring plans for the next six months, with slightly more firms expecting to increase payrolls than reduce them. Some 29% of respondents expect employment at their firms to increase, down from 34% in April and 41% in July 2007. Another 51% anticipate no change in employment. The remaining 20% of firms are likely to reduce employment, mostly through attrition rather than layoffs. The overall NRI for future hiring was 9 in the July survey, down from 12 in April and 24 a year earlier. During the 1981-82, 1990-91, and 2001 recessions, the NRI moved well into negative territory. Firms adding jobs will outnumber those cutting jobs in the FIRE and services sectors. In contrast, the goods-producing sector plans further reductions in payrolls, with an NRI of -26, while TUIC respondents split evenly.

Percent of total respondents (100) reporting that in the next six months employment will:

	Jul '08	Apr '08	Jan '08	Oct '07	Jul '07
Increase	**29**	34	42	32	41
No change	**51**	45	42	53	42
Decrease through attrition	**16**	14	14	10	14
Decrease through significant layoffs	**4**	8	3	5	3
NRI (increase less all decreases)	**9**	12	25	17	24

By Sector-Jul '08	Goods-Producing	TUIC	FIRE	Services
Increase	**20**	**28**	**28**	**34**
No change	**33**	**44**	**59**	**55**
Decrease through attrition	**33**	**28**	**7**	**10**
Decrease through significant layoffs	**13**	**0**	**7**	**0**
NRI (increase less all decreases)	**-26**	**0**	**14**	**24**
Number responding	*15*	*18*	*29*	*38*

Figure 6 - Expected Employment
Net Rising Index



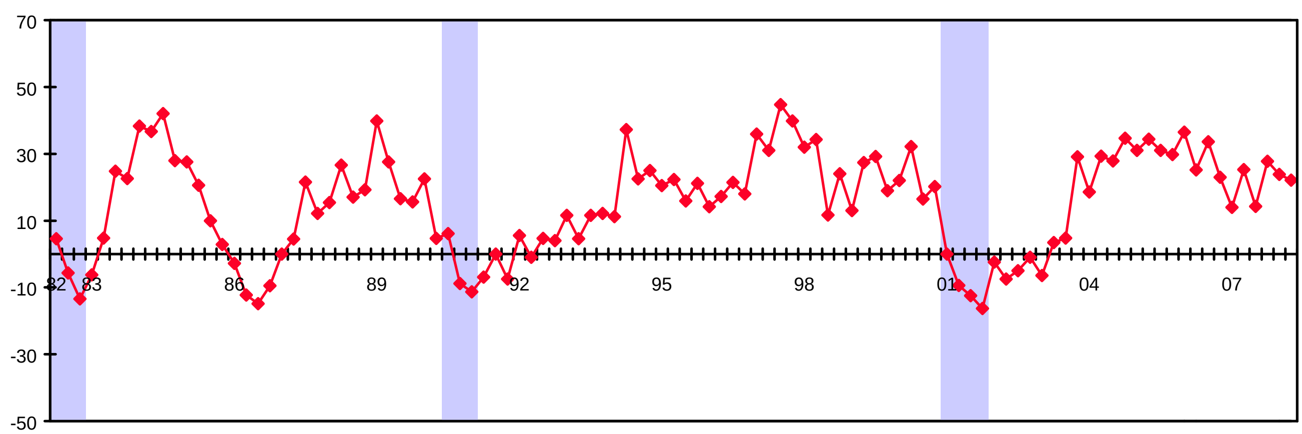
Capital Spending

Capital spending growth among respondents edged lower in the July survey but remained positive for the 21st consecutive quarter. The capital spending NRI fell to 22, slightly below the average net gain of 25 over this period and still well above the historical average of 15. (See Figure 7.) The decline in the NRI was due to a decrease in those respondents indicating rising capital spending. Compared with the previous survey, capital spending NRIs declined for the TUIC and FIRE sectors, but rose for goods-producing and services sectors.

Percent of total reporting (95) that capital spending is:

Survey Month	Rising	Unchanged	Falling	NRI	
July '08	**29**	**63**	**7**	**22**	
April '08	39	46	15	24	
January '08	38	52	10	28	
October '07	28	59	13	14	
July '07	33	59	8	25	
By Sector-Jul '08					*No. responding*
Goods-producing	**40**	**47**	**13**	**27**	*15*
TUIC	**35**	**53**	**12**	**23**	*17*
FIRE	**15**	**85**	**0**	**15**	*26*
Services	**32**	**60**	**8**	**24**	*37*

Figure 7 - Capital Spending
Net Rising Index



Survey respondents' capital spending plans for the next year remained roughly the same as the last survey. Forty percent reported that they expect capital spending to increase over the next 12 months, a bit below the 42% in the April survey. The NRI for this measure, at 27, was just one point below the last survey. The TUIC and FIRE sector's NRIs were lower, particularly for the FIRE sector, which fell from 27 in April to 4 in July. The NRI for the goods-producing and services sectors were higher, especially for the services sector whose NRI rose from 12 in April to 28 in July.

Percent of total reporting (92) that capital spending over the next 12 months will:

	Total	Goods-Producing	TUIC	FIRE	Services
Increase more than 10%	**11**	**13**	**7**	**8**	**14**
Increase less than 10%	**29**	**47**	**53**	**12**	**24**
Stay about the same	**47**	**27**	**27**	**64**	**51**
Decrease less than 10%	**8**	**7**	**0**	**16**	**5**
Decrease more than 10%	**5**	**7**	**13**	**0**	**5**
NRI (all increases less decreases)	**27**	**46**	**47**	**4**	**28**
Number reporting	*92*	*15*	*15*	*25*	*37*

Capital spending plans for computers and communications equipment (C&C) over the next 12 months were unchanged when compared with expectations in April. Thirty-nine percent of respondents reported that they plan to increase C&C spending, down from 43% in April. The goods-producing and services sectors raised their outlook for the next 12 months while the TUIC and FIRE lowered their C&C spending plans. The goods-producing sector reported the largest increase in NRI. In April, 18% of the goods-producing sector respondents were planning to increase spending on C&C, and this rose to 54% in the current survey. In contrast, NRIs fell in the TUIC sector from 39 in April to 6 in July, and in the FIRE sector from 48 to 32.

Percent of total reporting (91) that spending on computers and communications equipment over the next 12 months will:

	Total	Goods-Producing	TUIC	FIRE	Services
Increase more than 10%	**13**	**27**	**6**	**8**	**15**
Increase less than 10%	**26**	**27**	**12**	**32**	**28**
Stay about the same	**50**	**36**	**68**	**52**	**46**
Decrease less than 10%	**6**	**9**	**0**	**8**	**5**
Decrease more than 10%	**4**	**0**	**12**	**0**	**5**
NRI (all increases less decreases)	**29**	**45**	**6**	**32**	**33**
Number reporting	*91*	*11*	*16*	*25*	*39*

Capital spending plans for structures over the next 12 months edged up to an NRI of 15 from 13 in April. The goods-producing and services sector respondents showed an increase in their plans, with the NRI rising by 26 and 13 points, respectively. The NRIs for TUIC and FIRE sector respondents fell by 8 and 22 points, respectively, although only the FIRE sector expects to decrease spending on structures over the next twelve months.

Percent of total reporting (67) that spending on structures over the next 12 months will:

	Total	Goods-Producing	TUIC	FIRE	Services
Increase more than 10%	**10**	**15**	**15**	**10**	**4**
Increase less than 10%	**15**	**15**	**31**	**10**	**9**
Stay about the same	**64**	**69**	**31**	**58**	**86**
Decrease less than 10%	**6**	**0**	**8**	**16**	**0**
Decrease more than 10%	**4**	**0**	**15**	**5**	**0**
NRI (all increases less decreases)	**15**	**30**	**23**	**-1**	**13**
Number reporting	*67*	*13*	*13*	*19*	*22*

The fiscal “stimulus” law enacted in February included a speedup in depreciation for many assets placed in service in 2008. Most survey respondents (84%) do not expect to alter their capital spending plans due to the accelerated depreciation being offered for this year; this is virtually the same percent as reported in April (82%). Only 7% indicated that they would be spending more because of the incentive, while 8% of firms said that they would “pull-ahead” spending that otherwise would have taken place in the following year. The TUIC and services sector appears to be the most responsive to the tax incentive with 23% and 22%, respectively, of respondents planning on buying more equipment this year.

Percent of total (84) reporting on how the speedup in depreciation will change capital spending:

	Total	Goods-Producing	TUIC	Finance	Services
Yes, buy more equipment than otherwise	**7**	**8**	**8**	**4**	**8**
Yes, buy equipment in 2008 that we would otherwise have bought in 2009	**8**	**0**	**15**	**0**	**14**
No change	**84**	**92**	**77**	**96**	**78**
Number responding	*84*	*12*	*13*	*23*	*36*

Second-half 2008 Forecast Assumptions

Respondents appear to be more upbeat about the outlook for the GDP growth in the second half of this year than they were about the first half. In April, only 19% of respondents expected growth in the first half of 2008 to be above 1%, while 44% of respondents in the July survey expect growth to be above 1% in the second half of the year. Another 45% of respondents believe growth is sluggish, expanding between 0% and 1%, leaving only one out of ten who expect growth to be negative in the second half of the year. In April, 30% of respondents expected a negative first half.

Percent of total (97) reporting that second-half 2008 real GDP will grow:

	<0%	0-1%	1-2%	2-3%	>3%
Jul '08 (second-half forecast)	**10**	**45**	**32**	**11**	**1**
Apr '08 (first-half forecast)	30	51	16	3	0

Forty-five percent of survey panelists said their forecast for 2008 became more pessimistic between April and July, compared to only 13% who said they became more optimistic. Still, that reflects greater optimism than in April, when 70% of panelists said they had become more pessimistic and only 3% more optimistic.

Percent of total (100) reporting current forecast for 2008 in comparison with previous forecast is:

	Jul '08	Apr '08	Jan '08	Oct '07	Jul'07
Significantly more optimistic	**0**	0	0	1	1
Somewhat more optimistic	**13**	3	5	11	20
Unchanged	**42**	27	27	33	51
Somewhat more pessimistic	**39**	56	62	53	28
Significantly more pessimistic	**6**	14	6	3	0

Housing

Twenty-nine percent of respondents expect a substantial slowdown (more than 5%) in housing in the next six months. This is lower than the 45% indicating a substantial slowdown in housing last April. Another 58% expect a mild slowdown (5% or less), higher than April when 47% of respondents expected a mild slowdown. Thirteen percent do not expect any further slowing in the housing market over the next six months, a bit more than the 8% who stated this in April. Whether they expect a slowdown to be mild or substantial, 37% of respondents expect an impact on their business, a bit lower than the 41% who indicated this in April. Respondents in the TUIC and goods-producing sectors were more likely than those in other sectors to expect an impact on their own business.

Percent of total (100) expecting housing to slow in the next six months and expected effect on firm:

	Total	Goods-Producing	TUIC	Finance	Services
Yes, I expect a substantial slowdown (>5%), with an impact on my business	**11**	**7**	**28**	**11**	**5**
Yes, I expect a substantial slowdown, but little or no impact on my business	**18**	**14**	**17**	**7**	**29**
I expect a mild slowdown (0-5%), with an impact on my business	**26**	**43**	**50**	**21**	**10**
I expect a mild slowdown, but little or no impact on my business	**32**	**21**	**6**	**39**	**42**
I do not expect a (further) housing slowdown	**13**	**14**	**0**	**21**	**13**
Number responding	*98*	*14*	*18*	*28*	*38*

Credit Conditions

Forty-eight percent of respondents indicated that the tightening credit conditions have affected their business, up slightly from 45% in April. Forty-one percent reported that tightening has affected them in a negative manner, up from 39% in April. In July, the TUIC and FIRE sectors stated a larger negative impact on their business than in April. A smaller negative impact was reported for the goods-producing and services sector compared with April.

Percent of total (101) reporting on how the tightening of credit conditions has affected business:

	Total	Goods-Producing	TUIC	Finance	Services
Yes, negatively	**41**	**27**	**67**	**59**	**20**
Yes, positively	**7**	**0**	**6**	**14**	**5**
No effect	**52**	**73**	**28**	**28**	**74**
Number responding	*101*	*15*	*18*	*29*	*39*

A large majority (62%) of respondents stated that the actions by the Federal Reserve to lower interest rates or raise access to credit have had no impact on their businesses; however, this is down from 69% in April. Thirty-one percent indicated that they have been positively affected, up by ten percentage points from April. Seven percent responded that they have been negatively impacted, slightly less than in April. The finance sector had the highest percentage of respondents being positively affected at 45% and the highest percentage being negatively impacted at 14%.

Percent of total (99) reporting on how the Federal Reserve's interest rate reductions or credit access liberalizations have affected business:

	Total	Goods-Producing	TUIC	Finance	Services
Yes, negatively	**7**	**0**	**6**	**14**	**5**
Yes, positively	**31**	**27**	**29**	**45**	**24**
No effect	**62**	**73**	**65**	**41**	**71**
Number responding	*99*	*15*	*17*	*29*	*38*

Dollar's Decline

This quarter's survey again included questions about the recent effect of the fall of the dollar on respondents' business conditions and the expected effect in the remainder of 2008. Most respondents reported no significant impact. The percent helped minus percent hurt provides a Net Benefit Index, which moved up slightly to +7 for all respondents this quarter compared to +3 last quarter. The Net Benefit scores fell very slightly from 21 to 20 for goods-producing firms, bounced back from -6 to 18 for TUIC, stayed at 4 for FIRE, and rose from -7 to -3 for services.

Percent of total (101) reporting on how the dollar's decline has affected business:

	Total	Goods-Producing	TUIC	Finance	Services
Helped sales and/or profits	**26**	**47**	**39**	**21**	**15**
Hurt sales and/or profits	**19**	**27**	**17**	**17**	**18**
Insignificant impact	**55**	**27**	**44**	**62**	**67**
Number responding	*101*	*15*	*18*	*29*	*39*

When asked about the expected effect of dollar exchange rate changes on their firms' fortunes in 2008, most expected no effect either due to no further exchange rate changes expected or no sensitivity to these changes. However, slightly more firms that do expect to be impacted by further changes anticipate beneficial effect from either a fall or an increase of the dollar.

Percent of total (101) reporting on expectations of dollar's effect on sales or profits in 2008:

	Total	Goods-Producing	TUIC	Finance	Services
Dollar will fall, helping sales/profits	**18**	**27**	**39**	**7**	**13**
Dollar will fall, hurting sales/profits	**12**	**13**	**17**	**10**	**10**
Dollar will rise, helping sales/profits	**8**	**0**	**6**	**10**	**10**
Dollar will rise, hurting sales/profits	**3**	**0**	**6**	**0**	**5**
No change in dollar and/or no impact on sales/profits	**59**	**60**	**33**	**72**	**62**
Number responding	*101*	*15*	*18*	*29*	*39*

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