The regional PMI index posted a decline in April, reducing the increase seen in March to just a short-lived spike. 26.3% of respondents indicated declines in production. This level is up from a mere 10.5% in March. The number of survey participants who reported increases in production has fallen to 26.3% from 31.6% a month ago.

Manufacturing employment seems to mimic the production survey. 26.3% of responders indicated reduced level of employment, up from 10.5% in March. The overall employment index retreated 5.2% in April.

Commodity prices remained a serious concern for the local manufacturers. The concern of high metal prices is visible in individual comments to the survey. Although the regional Commodity Price Index retreated from its pick level reached in March, it remains near its historical high point. In April, the Commodity Price Index declined to 84.3 as 5.3% of survey respondents noted declines in commodity prices. However, the overwhelming majority of respondents continue to report increasing commodity prices 73.7% (down from 78.9% level reached in March).

Inventories are once again on the rise. Following a brief drop in the inventories level that was seen in our March survey, the April results bring us back to the upward trend we saw in late fall of 2007 and winter of 2008. Although the number of responders reporting inventory accumulation did not increase relative to March (remained at 31.6%), the number of responders reporting inventory depletion fell by over 10 percent to 26.3% of the survey responders.

More survey responders indicated reduced new order activity. The New Order Index declined by 2.6% to 55.3%.

The health of the regional economy is largely dependent on the nation's macroeconomic picture, which remained uncertain throughout the last few months. This uncertainty about the state of health of the nation's economy is starting to negatively impact the national economy. The uncertainty, coupled together with the credit crisis creates a weak economic environment which is bound to negatively impact our regional manufacturing sector as well.

The GDP numbers released on April 30 continue to suggest that the US economy is in a slow down, perhaps not as steep as most Wall Street analysts anticipated, but slowdown nevertheless. At this point the slowdown resembles that of 2000-2001, i.e. a gradual decline in growth to near zero levels, a so called U-shaped recession. A U-shaped recession is usually a prolonged phenomenon that can last beyong the scope of one year. Although the GDP numbers for the first quarter showed positive growth of 0.6%, looking forward, negative growth is highly likely in the second quarter. The GDP release of April 30th painted a negative employment outlook for the upcoming couple of quarters.

Firstly, the accumulation of business inventories helped push the growth level into positive territory. According to the BEA, the Business Inventory accumulation contributed 0.81% to the GDP growth in QI, if factored out, the growth level drops to -0.2%, suggesting that the US economy is already exhibiting signs of a recession.

Second, and perhaps even more alarming, is the drop in business investment spending. The overall level of investment spending in the US continued to decrease for the second consecutive quarter, but that by itself is not a clear indicator as the residential investment continues to adjust due to the housing crisis. The residential investment adjustment is a must if we are to create any housing price inflation, and so this adjustment is in a way just a market solution to the problem. The real sign of an upcoming slowdown and lack of job growth is in the behavior of non-residential investment, especially the non-residential investment into structures. Up until the first quarter of 2008 this component posted impressive growth. In QIV of 2007 the non-residential structures investment expanded at 12.4% rate. However, the statistics released today showed that in QI of 2008 this component of the GDP declined at the rate of 6.2%. Non-residential structures investment plays an important role in future job growth. For instance, non-residential investment growth remained negative between QI of 2001 and QI of 2003, and posted positive growth in QII of 2003, shortly prior to the return to positive job growth in the summer of 2003.

Today's GDP release indicates that the US economy for all relevant purposes has started to experience recession. Employment growth is likely to remain negative as we enter the summer. The timing of this slowdown is relatively bad as it corresponds to the seasonal pick in the housing market activity. Monetary policy has already been actively engaged, but so far has failed to produce any meaningful inflation in the housing prices. Ironically, the monetary policy has managed to create substantial side effects throughout the economy. One of these is the falling US dollar, which is a double edge sword for the national economy, although less so for our region. On the one hand, the weak dollar clearly helps our exports; export growth continued to outpace import growth in QI of 2008, and if we factor out the oil products, then the picture is considerably more favorable. For instance, in January and February of 2008, the US economy imported 58.863 Billion Dollars worth of Crude Oil (nearly a billion/day), this is substantially higher than the imports of Crude Oil during the same period in 2007: $33.739 billion. The enormous appreciation of the price of oil has helped inflation US imports, but even despite that, the effects of the weaker dollar can clearly be seen in the rapid growth of US exports. The weaker dollar also helps inflate foreign earnings of US firms. But despite all its benefits, the weaker US dollar helps fuel commodity price inflation, and that is not a good development for our manufacturing activity and consumer spending. The nearly 59 billion dollars spend on imported oil in just two months can be compared to a tax on the US economy, a tax of nearly a billion dollars a day.

The national recession will inevitably have its negative impact on our regional economy. Although, interestingly, there will be some positive effects as well. Businesses tend to seek efficiency gains more enthusiastically during periods of economic downturn. As our region is appears to be considerably less expensive in terms of cost of living, skilled labor cost compared to many major metropolitan areas, we will likely see some job relocation. Arrival of new companies is highly unlikely due to our tax structure, but expansion of payrolls of existing service firms may be expected. As companies like Citigroup reduce their high pay labor in NYC and other relatively expansive areas, they are likely to expand their operations in our region. However, the effect of this will be small and won't compensate us for the losses that are inevitable during a national slowdown. The summer quarter will still benefit from the weaker US dollar (the near parity level to the Canadian Dollar), the benefit should particularly be visible in the service and retail trade sectors. Looking forward to the Fall quarter, the uncertainty of the national economy impacts the regional outlook. We feel that the national economy will not post a robust recovery this year, which will hurt significantly our regional economy in the fall.

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