

# Empire State Manufacturing Survey

The June *Empire State Manufacturing Survey* indicates that manufacturing activity expanded slightly over the month. The general business conditions index fell fifteen points, but remained positive at 2.3. The new orders index declined six points to 2.2, and the shipments index fell a steep nineteen points to 4.8. Price indexes were markedly lower, with the prices paid index falling eighteen points to 19.6 and the prices received index dropping eleven points to 1.0. Employment indexes also retreated, though they still indicated a small increase in employment levels and a slightly longer average workweek. Indexes for the six-month outlook were generally lower than last month's levels, suggesting that optimism was waning somewhat, with the

future general business conditions index falling to 23.1, its fifth consecutive monthly decline.

In a series of supplementary questions, manufacturers were asked about their capital spending plans: 43 percent said that they expected to increase capital spending over the next six to twelve months, while just 16 percent planned reductions—a somewhat more positive balance than in the August 2010 survey, when the same questions had been asked. In the current survey, high capacity utilization emerged as the most widely cited factor contributing to higher capital spending; it had not been identified as a leading factor in 2010. High expected sales growth and a need to replace existing

capital equipment (especially non-IT equipment) were also widely cited in the current survey as reasons for the increase in capital spending.

## Business Activity Expands Slightly

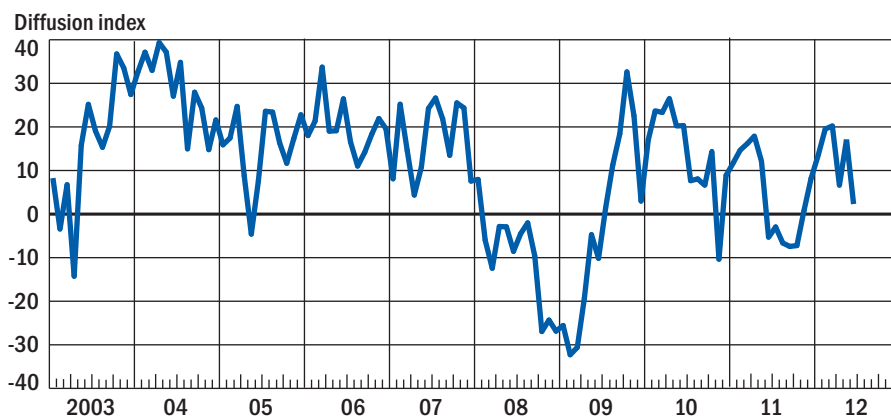
The June general business conditions index fell a significant fifteen points to 2.3, its lowest level since November of 2011. This level suggests that activity expanded over the month, but only slightly. Thirty-one percent of respondents reported that conditions had improved over the month, while 28 percent reported that conditions had worsened. The new orders index fell six points to 2.2, indicating a slight rise in orders. The shipments index fell a steep nineteen points to 4.8. The unfilled orders index remained negative, and was little changed at -5.2. The delivery time index held at zero, while the inventories index fell thirteen points to -8.3, indicating a modest decline in inventory levels.

## Price Increases Continue to Slow

The prices paid index fell for a third consecutive month, dropping eighteen points to 19.6—a sign that the pace of increase in input prices continued to slow. The prices received index fell eleven points to 1.0, its lowest level in more

## General Business Conditions

Seasonally adjusted



Continued

*Continued from page 1*

than a year, suggesting that selling prices were essentially unchanged. Employment indexes, while lower, remained positive, indicating higher employment levels and a longer average workweek. The index for number of employees fell eight points to 12.4, while the average workweek index fell nine points to 3.1.

### **Optimism Continues to Cool**

Indexes for future activity continued to fall in June as the level of optimism about the six-month outlook declined further. The future general business conditions index fell for a fifth consecutive month, edging down six points to

23.1. The future new orders index dropped fifteen points to 15.5, and the future shipments index fell thirteen points to 12.4. The future prices paid index retreated twenty-four points to 34.0, indicating that price increases were expected to continue but at a slower pace than was anticipated last month. The future prices received index fell five points to 17.5, indicating that selling prices were expected to climb. The index for expected number of employees rose to 16.5, while the future average workweek index fell to 2.1. The capital expenditures index inched up to 21.7, and the technology spending index was little changed at 12.4. ■

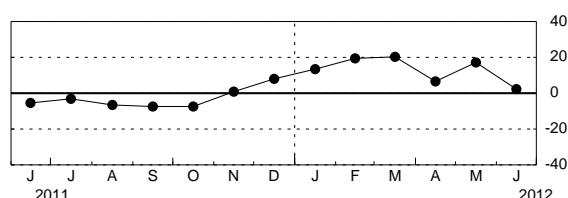
# Current Indicators

Change from Preceding Month

## General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	40.51	36.07	23.42	17.09
Jun	30.63	41.04	28.33	2.29

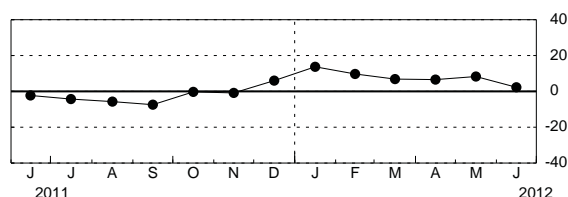
General Business Conditions - Diffusion Index



## New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	39.89	28.54	31.57	8.32
Jun	30.83	40.53	28.64	2.18

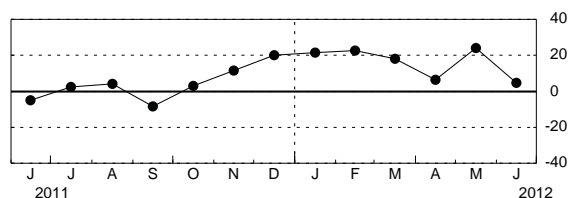
New Orders - Diffusion Index



## Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	46.69	30.76	22.55	24.14
Jun	31.90	41.01	27.09	4.81

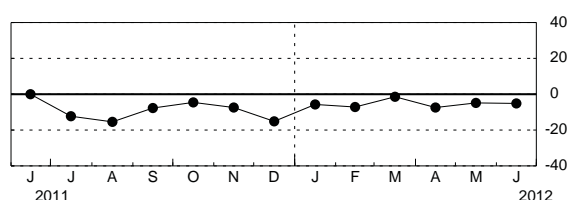
Shipments - Diffusion Index



## Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	14.46	66.27	19.28	-4.82
Jun	13.40	68.04	18.56	-5.15

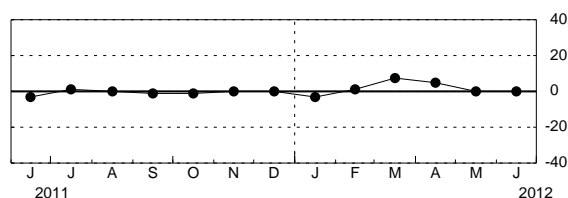
Unfilled Orders - Diffusion Index



## Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	8.43	83.13	8.43	0.00
Jun	11.34	77.32	11.34	0.00

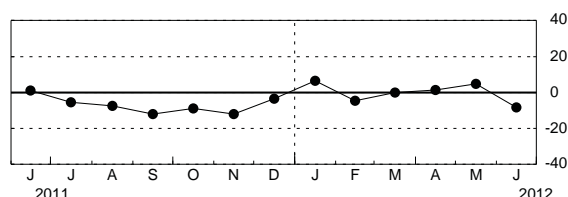
Delivery Time - Diffusion Index



## Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	26.51	51.81	21.69	4.82
Jun	20.62	50.52	28.87	-8.25

Inventories - Diffusion Index



## Current Indicators, *continued*

### Change from Preceding Month

#### Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	38.55	60.24	1.20	37.35
Jun	28.87	61.86	9.28	19.59

#### Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	19.28	73.49	7.23	12.05
Jun	13.40	74.23	12.37	1.03

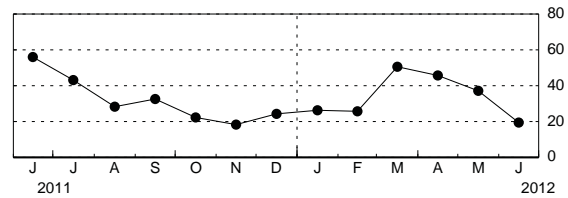
#### Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	22.89	74.70	2.41	20.48
Jun	24.74	62.89	12.37	12.37

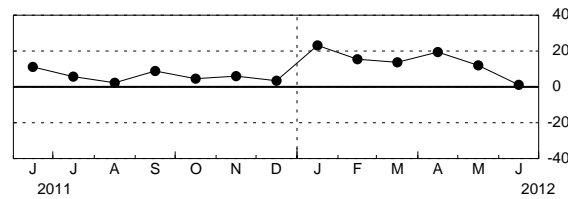
#### Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	24.10	63.86	12.05	12.05
Jun	15.46	72.16	12.37	3.09

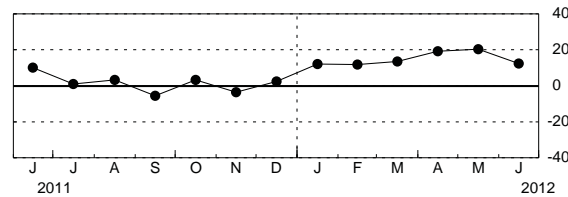
Prices Paid - Diffusion Index



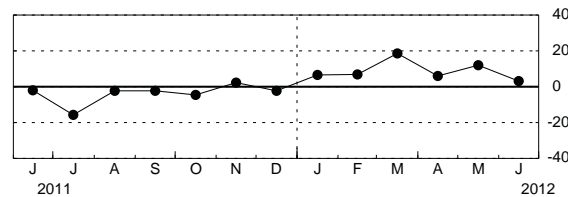
Prices Received - Diffusion Index



Number of Employees - Diffusion Index



Average Employee Workweek - Diffusion Index



Note: All data are seasonally adjusted.

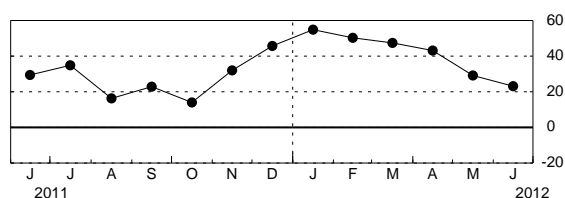
# Forward-Looking Indicators

Expectations Six Months Ahead

## General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	47.58	34.09	18.32	29.26
Jun	39.53	44.06	16.40	23.13

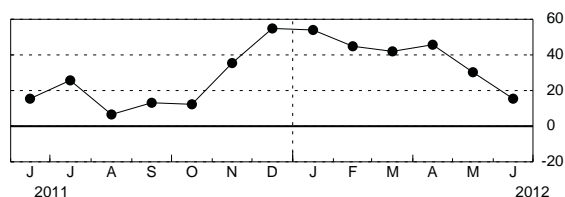
General Business Conditions - Diffusion Index



## New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	46.99	36.14	16.87	30.12
Jun	38.14	39.18	22.68	15.46

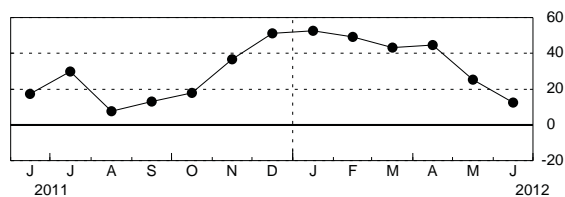
New Orders - Diffusion Index



## Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	43.37	38.55	18.07	25.30
Jun	34.02	44.33	21.65	12.37

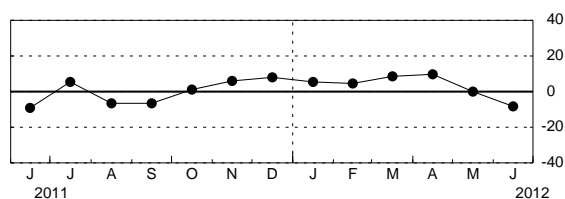
Shipments - Diffusion Index



## Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	14.46	71.08	14.46	0.00
Jun	11.34	69.07	19.59	-8.25

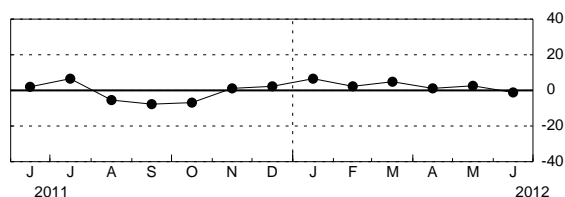
Unfilled Orders - Diffusion Index



## Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	9.64	83.13	7.23	2.41
Jun	10.31	78.35	11.34	-1.03

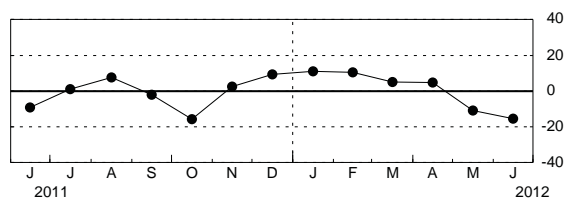
Delivery Time - Diffusion Index



## Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	18.07	53.01	28.92	-10.84
Jun	20.62	43.30	36.08	-15.46

Inventories - Diffusion Index



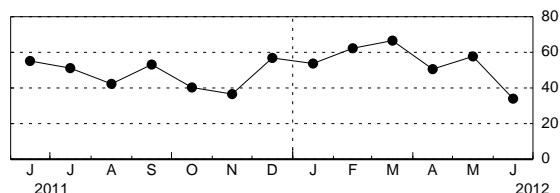
## Forward-Looking Indicators, *continued*

### Expectations Six Months Ahead

#### Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	57.83	42.17	0.00	57.83
Jun	40.21	53.61	6.19	34.02

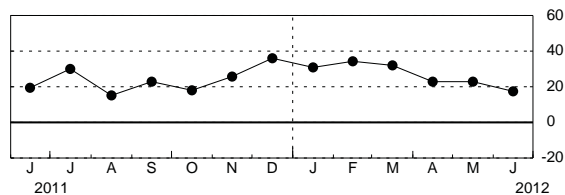
Prices Paid - Diffusion Index



#### Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	31.33	60.24	8.43	22.89
Jun	25.77	65.98	8.25	17.53

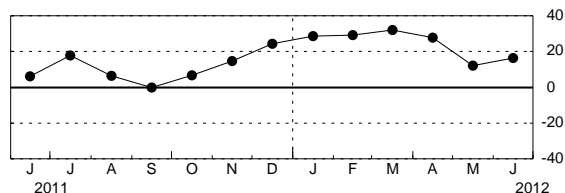
Prices Received - Diffusion Index



#### Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	25.30	61.45	13.25	12.05
Jun	29.90	56.70	13.40	16.49

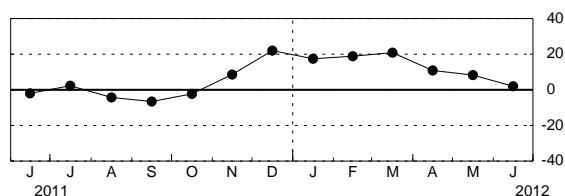
Number of Employees - Diffusion Index



#### Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	19.28	69.88	10.84	8.43
Jun	18.56	64.95	16.49	2.06

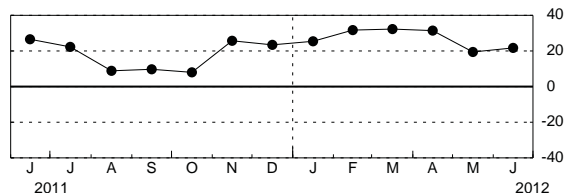
Average Employee Workweek - Diffusion Index



#### Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	33.73	51.81	14.46	19.28
Jun	34.02	53.61	12.37	21.65

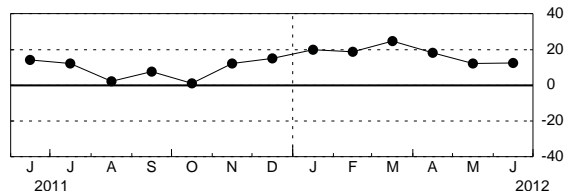
Capital Expenditures - Diffusion Index



#### Technology Spending

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
May	22.89	66.27	10.84	12.05
Jun	22.68	67.01	10.31	12.37

Technology Spending - Diffusion Index



Note: All data are seasonally adjusted.

## Supplemental Report:

# High Capacity Utilization Spurring Increased Capital Spending

In a series of supplementary questions to the June *Empire State Manufacturing Survey*, manufacturers were asked about their capital spending plans. Looking ahead to the next six to twelve months, 43 percent of respondents indicated that they expected to increase capital spending relative to its level in the past six to twelve months, while just 16 percent planned reductions. Responses were slightly more positive than they had been in August 2010—the last time these questions were asked. At that stage of the recovery, 37 percent of respondents had anticipated increased capital spending, while 13 percent had planned to reduce spending.

Of those respondents to this month's survey who planned to hike capital spending, slightly more than half reported that at least some of the increase reflected investment that had been postponed because of the recession; in the 2010 survey, nearly three-quarters of the respondents who expected to boost spending made the same assertion.

The most widely cited *major* factor behind increased investment was high capacity utilization: 44 percent of those planning to ramp up capital spending cited this factor, up noticeably from just 27 percent in the 2010 survey. Other commonly cited factors included high expected sales growth and a need to replace non-IT (information technology) equipment; these two factors had

been the most widely cited in the 2010 survey. Roughly 30 percent of respondents in the current survey noted a need to replace IT equipment and an improved cash flow/balance sheet position as major factors. The latter was not a big driver of increased capital spending in the earlier survey.

The most widely cited factors behind steady or decreased capital investment in the current survey were low expected sales growth and limited need to replace non-IT capital goods. A sizable proportion of respondents—about the same as in 2010—cited financial/economic uncertainty as a factor restraining capital spending. Low capacity utilization was less widely cited as a factor than in the 2010 survey. ■

## Supplemental Report, *continued*

### QUESTION 1

Do you expect your firm's spending on new plant and equipment over the next six to twelve months to increase, decrease, or be about unchanged relative to your actual spending over the past six to twelve months?

	Percentage of Respondents	
	June 2012	August 2010
Decrease	15.6	12.9
Stay the same	41.7	50.0
Increase	42.7	37.1

### QUESTION 2

If you expect capital spending to rise, how much of the increase reflects investment that had been postponed because of the recession?

	Percentage of Respondents	
	June 2012	August 2010
A considerable fraction	17.1	26.9
Some	36.6	46.2
Not much	46.3	26.9

### QUESTION 3A

If you expect capital spending to rise, what are the major factors behind your plan to increase capital spending? Please check any that apply.

	Percentage of Respondents	
	June 2012	August 2010
Expected growth of sales is high	39.0	38.5
Capacity utilization is currently high	43.9	26.9
Need to replace information technology equipment	31.7	30.8
Need to replace equipment that uses too much energy	14.6	7.7
Need to replace other capital goods	36.6	38.5
Cost or availability of external finance has improved	0.0	0.0
Cash flow or balance sheet position has improved	29.3	15.4
Decreased economic/financial uncertainty	9.8	7.7
Other factors	12.2	23.1

### QUESTION 3B

If you expect capital spending to decrease or remain unchanged, what are the major factors behind your plan *not* to increase capital spending? Please check any that apply.

	Percentage of Respondents	
	June 2012	August 2010
Expected growth of sales is low	47.3	54.5
Capacity utilization is currently low	40.0	54.5
Limited need to replace information technology equipment	34.5	38.6
Limited need to replace other capital goods	45.5	54.5
Cost or availability of external finance has deteriorated	10.9	6.8
Cash flow or balance sheet position has deteriorated	18.2	13.6
Outsourcing	1.8	11.4
Increased or high economic/financial uncertainty	41.8	45.5
Other factors	18.2	11.4