

February 2006

Empire State Manufacturing

Survey

For release: February 15, 2006 8:30 a.m.

Summary

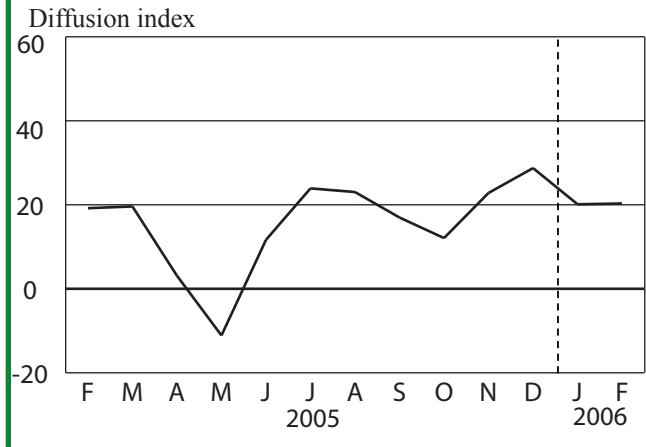
The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers continued to improve in February, at a pace roughly matching the average of the past several months. The general business conditions index rose marginally to 20.3. The new orders, shipments, and unfilled orders indexes were positive and essentially unchanged from January. The inventories index rose from last month but remained negative. Price indexes remained elevated, although the prices paid index posted a small increase while the prices received index posted a small decline. Employment indexes were positive but lower than January levels. Future indexes continued to convey optimism, but were somewhat lower than last month. The future delivery time index rose significantly to its highest level on record, indicating that delivery times are expected to lengthen in the coming months. The capital expenditures index rose to its highest level in more than a year.

In a series of supplementary questions, manufacturers were asked about foreign sales and exchange rates. Roughly 80 percent of respondents said that the dollar had been steady to somewhat weaker over the past year against the currencies that matter most for their business; when asked which currencies most affected their overall sales, respondents ranked the euro first, followed by the Chinese yuan and the Canadian dollar. Movements in the dollar have raised firms' input prices but have had only a modest adverse effect, on balance, on overall business. Considerably more than a third of manufacturers said that they planned to devote increased resources to marketing abroad in 2006—particularly to Asia.

Business Activity Continues to Expand

The general business conditions index rose marginally in February but, at 20.3, conformed roughly to its average level for the months since July. This month, the percentage of respondents reporting that conditions had improved dropped from 42 percent in January to 35 percent, while those reporting that conditions had deteriorated fell from 22 percent to 15 percent; a little more than half of the respondents reported that conditions were the same. The new orders index, at 26.5, was nearly the same as last month. After rising significantly last month, the shipments index remained close to January's level at 31.6. The unfilled orders index also held steady, remaining positive at 2.9. The delivery time index hovered just above zero. After dropping well below zero last month, the inventories index reversed course but remained negative at -3.8.

General Business Conditions



Price indexes remained elevated. The prices paid index rose several points, to 52.8. More than half of respondents reported higher prices paid, while just 2 percent reported lower prices. After a sharp increase in January, the prices received index dropped to 20.8, with the percentage reporting higher prices received falling from 34 percent to 25 percent. Employment indexes were positive but lower than in January. The index for number of employees fell to 5.2, with 18 percent of respondents increasing employment and 13 percent reducing employment. The average workweek index fell to 4.7, with 16 percent reporting a longer workweek, down from 28 percent last month.

Strong Conditions Expected to Continue

Future indexes suggested that respondents expect continued improvement in business activity over the next six months. The future general business conditions index slipped to 37.9, below levels of the past few months but still indicative of expected expansion. The future new orders and shipments indexes were both just below 50. There was a notable upswing in the future delivery time index, which rose to a record-high 9.4, indicating an expectation that delivery times would lengthen over the next six months. Future price indexes remained positive but dipped slightly from last month. Future employment indexes were positive. The capital expenditures index rose to 40.6, its highest level in more than a year, while the technology spending index remained positive at 21.7.

Note:

Diffusion indexes are calculated for each indicator by subtracting the percent of respondents reporting the indicator lower from the previous month from those reporting the indicator higher. Thus positive values signify that more respondents report the indicator higher from the previous month than lower. Data are seasonally adjusted to control for seasonal variations.

Exchange Rates Adversely Affecting Input Prices

In the February survey, manufacturers were asked a series of supplementary questions on foreign sales and the effects of shifts in exchange rates on various aspects of their business. The table below shows results of this survey and, where applicable, results from a similar survey conducted in February 2005.

On the issue of how shifting exchange rates have affected their business, 42 percent of those surveyed reported an unfavorable effect on their input prices (that is, higher input prices), whereas only 7 percent said that the effect had been positive. Interestingly, respondents on balance also reported unfavorable effects on their selling prices, though by a much smaller margin; effects on most other aspects of business were fairly evenly balanced. Since the dollar has strengthened against some currencies over the past year but weakened against others, respondents were asked how the dollar's value had changed relative to currencies that matter most for their business: More than 35 percent said that it had weakened, while 20 percent reported that it had strengthened. When asked which currencies most affected their overall sales (both foreign and domestic), respondents most commonly cited the euro, followed by the yuan and the Canadian dollar. The Japanese yen and Mexican peso were seen as having less of an effect, although the majority of manufacturers acknowledged at least some effect. Finally, when asked about the resources they planned to devote to marketing abroad in 2006, 36 percent said they planned to devote more resources than in 2005, while 7 percent said they planned to devote fewer. The region of the world targeted most widely was Asia, followed by Europe; Canada was a distant third and Latin America ranked last.

February 2006 Survey Results

Responses to Supplementary Questions

1) Approximately what percentage of your overall revenues came from foreign customers in 2005 (2004)?

Average percentage of revenues	Percentage of Respondents	
	Feb. 2006	Feb. 2005
	12.4%	11.3%
None	20	21
1 to 4	18	15
5 to 9	19	25
10 to 19	25	14
20 or more	18	25

2) How favorable or unfavorable an effect has the change in dollar exchange rates, over the past year, had on each of the following components of your business?

Component	Percentage of Respondents		
	Unfavorable	No effect	Favorable
	February 2006 Survey		
Prices you pay for materials/inputs	42.0	51.0	7.0
Prices you are able to charge	19.4	71.4	9.2
Your sales to foreign customers	12.4	68.0	19.6
Your domestic sales	9.2	85.7	5.1
Overall net effect on your business	22.9	66.7	10.4
	February 2005 Survey		
Prices you pay for materials/inputs	50.4	46.4	3.2
Prices you are able to charge	17.7	58.9	23.4
Your sales to foreign customers	4.9	60.7	34.4
Your domestic sales	11.3	75.8	12.9
Overall net effect on your business	31.5	41.1	27.4

3) Compared to currencies that most affect your business, would you say that the dollar has gotten stronger, weaker or stayed about the same over the past year?

	Percentage of Respondents
Weaker	3.1
Somewhat weaker	32.3
Little or no change	44.8
Somewhat stronger	18.8
Stronger	1.0

4) To what extent would a significant change in exchange rates against each of these currencies affect your overall sales (domestic and foreign combined), if at all?

	Percentage of Respondents		
	Moderate		
	No Effect	Effect	Large Effect
Canadian dollar	38.1	43.3	18.6
Euro	25.8	40.2	34.0
Japanese yen	46.8	42.6	10.6
Chinese yuan	37.9	33.7	28.4
Mexican peso	46.8	39.4	13.8

5) Do you plan to devote more or fewer resources to selling/marketing in each of these areas of the world in 2006 than you did in 2005?

	Percentage of Respondents		
	Moderate		
	Fewer Resources	Same	More Resources
Canada	7.3	75.0	17.7
Latin America	13.8	72.3	13.8
Europe	8.5	64.9	26.6
Asia	9.6	55.3	35.1
Overall [Abroad]	7.4	56.4	36.2

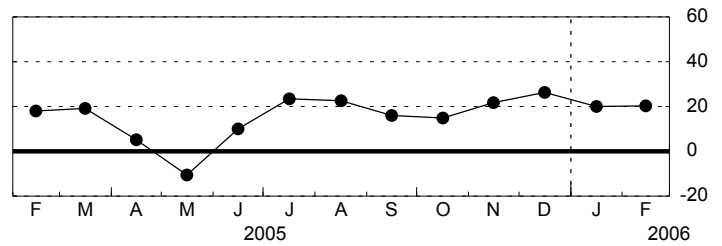
Empire State Manufacturing Survey, February 2006

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	41.79	36.55	21.66	20.12
Feb	34.85	50.60	14.54	20.31

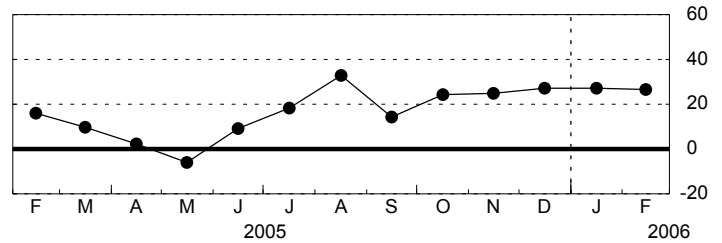
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	42.23	42.73	15.04	27.19
Feb	40.65	45.18	14.17	26.48

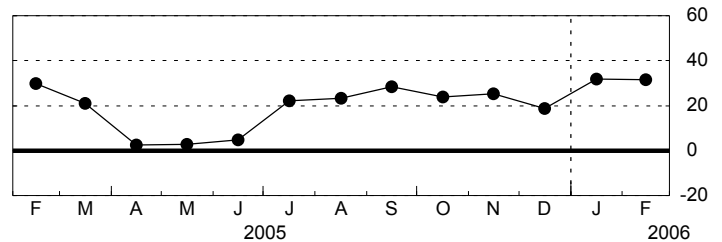
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	46.24	39.51	14.25	31.99
Feb	45.71	40.14	14.15	31.56

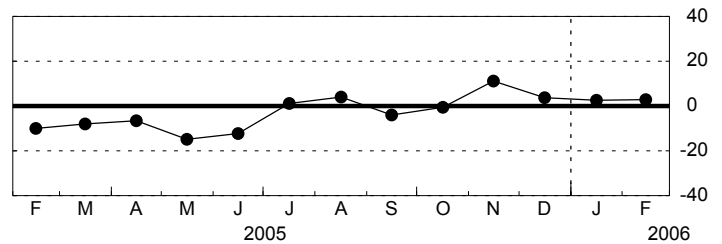
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	20.71	61.29	18.00	2.70
Feb	17.73	67.45	14.83	2.90

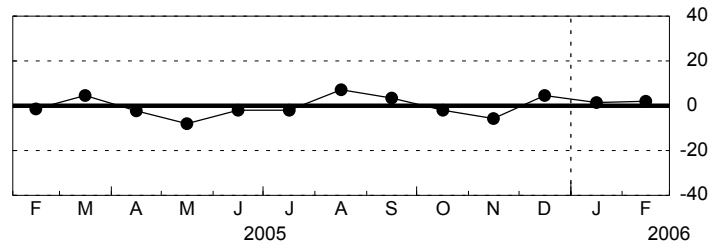
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	10.96	79.45	9.59	1.37
Feb	12.26	77.36	10.38	1.89

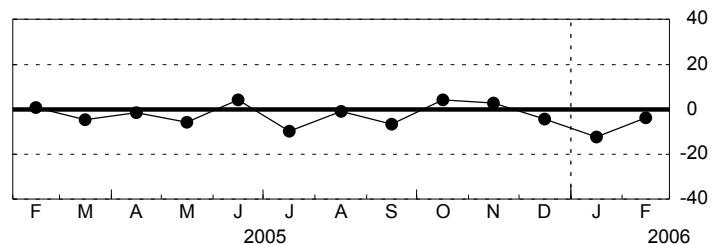
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	21.92	43.84	34.25	-12.33
Feb	22.64	50.94	26.42	-3.77

Inventories - Diffusion Index



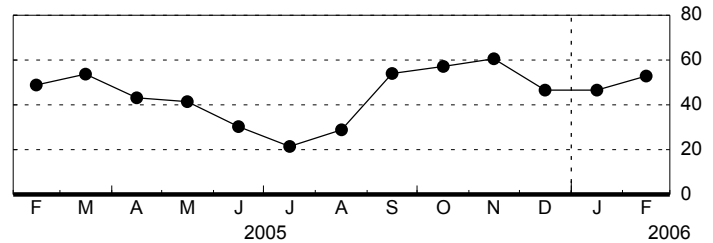
Empire State Manufacturing Survey, February 2006

Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	47.95	50.68	1.37	46.58
Feb	54.72	43.40	1.89	52.83

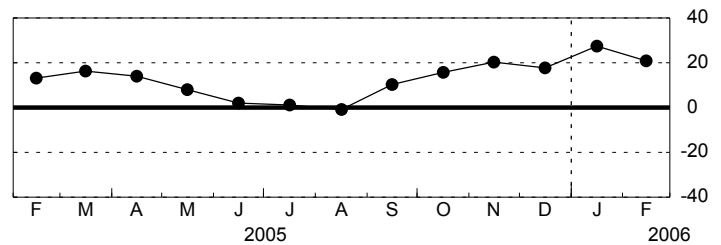
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	34.25	58.90	6.85	27.40
Feb	24.53	71.70	3.77	20.75

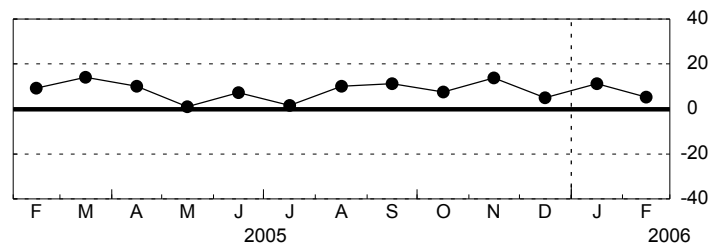
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	23.62	64.05	12.33	11.29
Feb	18.40	68.39	13.21	5.19

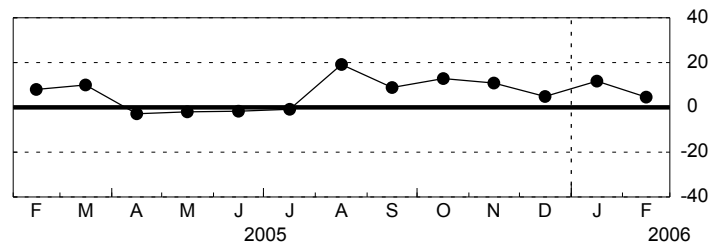
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	28.15	55.41	16.44	11.71
Feb	16.01	72.67	11.32	4.69

Average Employee Workweek - Diffusion Index

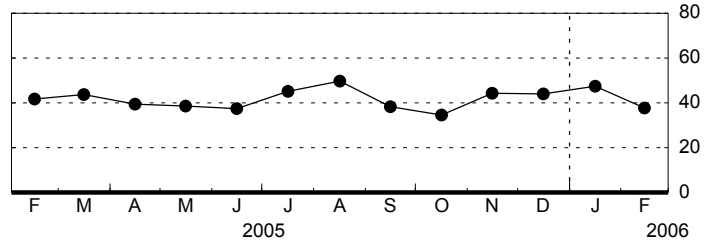


Empire State Manufacturing Survey, February 2006, Expectations Six Months Ahead Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	52.30	42.95	4.74	47.56
Feb	52.08	33.71	14.21	37.88

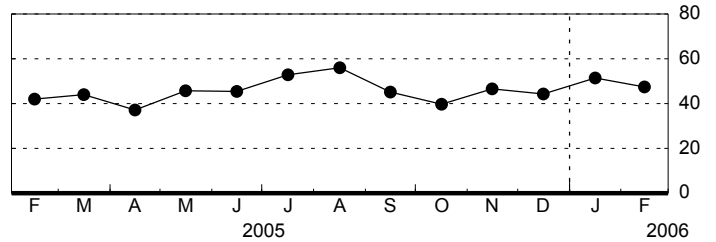
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	53.72	43.84	2.44	51.29
Feb	54.82	37.89	7.29	47.53

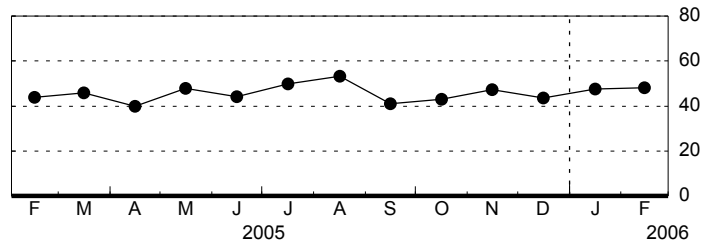
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	54.32	38.95	6.73	47.59
Feb	53.42	41.19	5.39	48.03

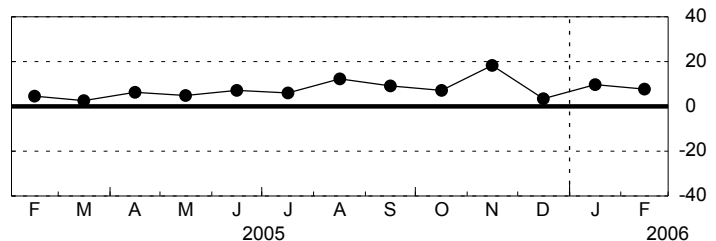
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	19.97	69.92	10.10	9.87
Feb	20.43	66.96	12.61	7.82

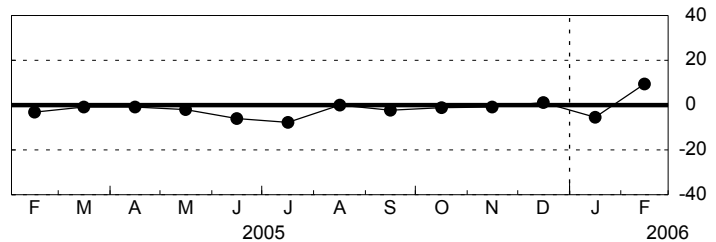
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	10.96	72.60	16.44	-5.48
Feb	16.04	77.36	6.60	9.43

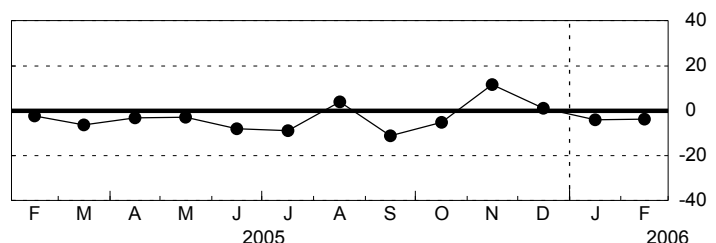
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	26.03	43.84	30.14	-4.11
Feb	26.42	43.40	30.19	-3.77

Inventories - Diffusion Index

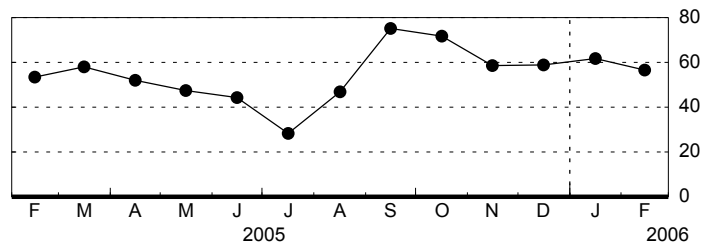


Empire State Manufacturing Survey, February 2006, Expectations Six Months Ahead Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	63.01	35.62	1.37	61.64
Feb	59.43	37.74	2.83	56.60

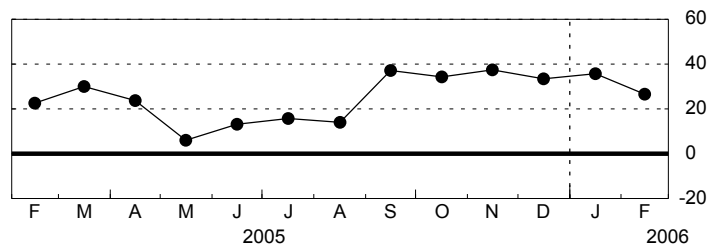
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	42.47	50.68	6.85	35.62
Feb	33.02	60.38	6.60	26.42

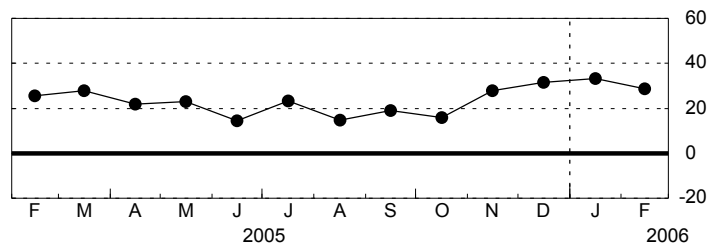
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	39.73	53.86	6.41	33.31
Feb	37.74	53.29	8.97	28.77

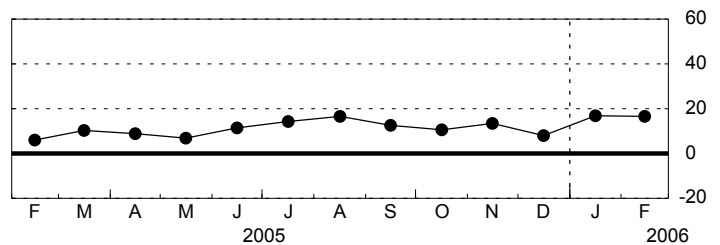
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	24.02	68.99	7.00	17.02
Feb	22.27	71.99	5.73	16.54

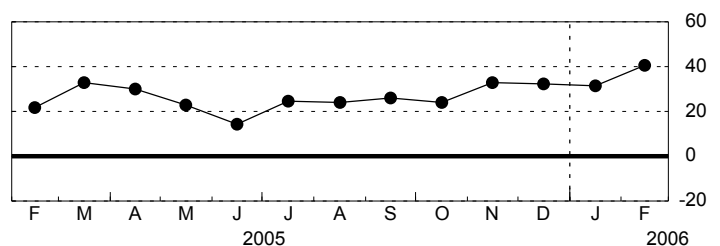
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	42.47	46.58	10.96	31.51
Feb	49.06	42.45	8.49	40.57

Capital Expenditures - Diffusion Index



Technology Spendings

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	30.14	60.27	9.59	20.55
Feb	30.19	61.32	8.49	21.70

Technology Spendings - Diffusion Index

