August 2010

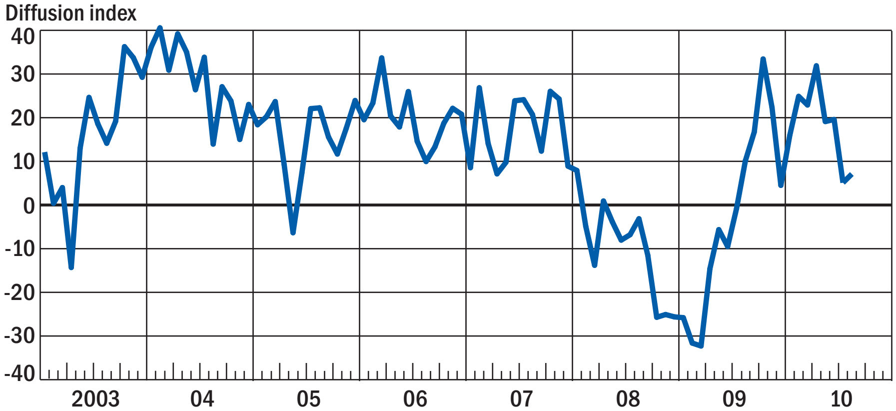
A publication of the Federal Reserve Bank of New York

Empire State Manufacturing Survey

The *Empire State Manufacturing Survey* indicates that conditions improved modestly in August for New York manufacturers. The general business conditions index rose 2 points from its July level, to 7.1. The new orders and shipments indexes both dipped below zero for the first time in more than a year, indicating that orders and shipments declined on balance; the unfilled orders index was also negative. The indexes for both prices paid and prices received inched down, while employment indexes were positive and higher than last month. The six-month outlook weakened; though future indexes were generally still positive, many fell in August, with the notable exceptions of the future employment and capital expenditures indexes, which climbed after falling last month.

In a series of supplementary questions, manufacturers were asked about their capital spending plans. Looking ahead to the next six to twelve months, 37 percent of respondents indicated that they expected to increase capital spending relative to its level in the past six to twelve months, while just 13 percent planned reductions. Of those predicting increased capital spending, 27 percent noted that "a considerable fraction" of the increase reflected investment that had been postponed because of the recession; 41 percent of respondents had given this same response in a similar survey back in January. Another 46 percent of those surveyed this month attributed "some" of the spending increase to the recession. The most commonly cited factors behind increased investment were high expected growth in sales and a need to replace capital goods other than IT (information technology) equipment. The most widely cited factors behind steady or decreased capital investment in the current survey were low expected sales growth, low capacity utilization, and limited need to replace non-IT capital goods.

General Business Conditions
Seasonally adjusted



Growth in Business Activity Remains Modest

The general business conditions index inched up two points in August, to 7.1. Still close to its July value, the index reading suggested that business activity improved over the month, but at a very modest pace. Roughly 30 percent of respondents reported that conditions had improved, while 22 percent reported that conditions had worsened. The new orders index fell below zero for the first time in over a year, dropping 13 points to -2.7—an indication that, on balance, manufacturers saw orders decline slightly. Following this same pattern, the shipments index also moved below zero, dropping 18 points to -11.5. Since April, this index has fallen a cumulative 44 points. The unfilled orders index was in negative territory for a fifth

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consecutive month, but inched up 6 points to -10.0. The delivery time index rose to zero. The inventories index was positive again in August, but fell a few points to 2.9.

Price Indexes Fall, Employment Indexes Climb

Both price indexes declined. Continuing its downward trend for a third consecutive month, the prices paid index fell 5 points to 20.0, suggesting that the pace of input price increases slowed. The prices received index, at -2.9, remained negative for a second consecutive month, a sign that selling prices were slightly lower in August. Employment indexes were positive and higher than in July, indicating that employment levels and the average workweek expanded in August. The index for number of employees had fallen in June and July, but climbed 6 points, to 14.3, this month. The average workweek index had dipped below zero last month, but rose 17 points to 7.1.

Degree of Optimism Continues to Weaken

Future indexes were generally positive, indicating that manufacturers expected conditions to improve in the months ahead. Nevertheless, many indexes fell in August, a sign that the level of optimism was slipping, as it had for the past few months. The future general business conditions index fell 6 points to 35.7, a reading well below the levels observed earlier this year. The future new orders index dipped 3 points to 31.4, and the future shipments index retreated 6 points to 25.7. The future prices paid index dropped 11 points to 30.0, while the future prices received index increased to 22.9. Future employment indexes rose: the index for expected number of employees climbed to 20.0, and the future average workweek index advanced to 7.1 after dipping below zero last month. Reversing two months of decline, the capital expenditures index moved up 9 points to 22.9. The technology spending index rose to 8.6. ■

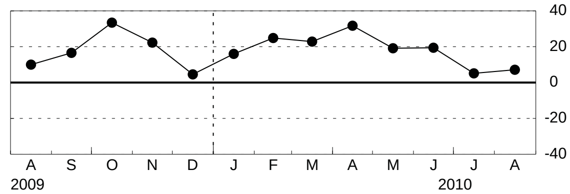
Current Indicators

Change from Preceding Month

General Business Conditions

	Higher	Same	Lower	Index
Jul	26.74	51.60	21.66	5.08
Aug	29.54	48.02	22.44	7.10

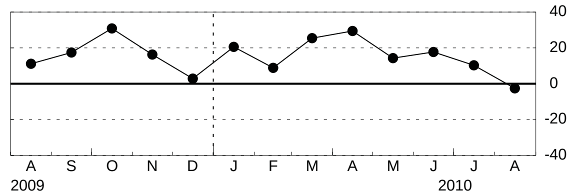
General Business Conditions - Diffusion Index



New Orders

	Higher	Same	Lower	Index
Jul	32.61	44.91	22.48	10.13
Aug	27.88	41.54	30.59	-2.71

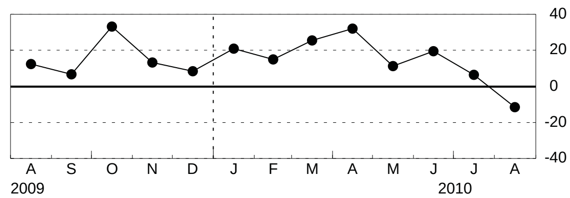
New Orders - Diffusion Index



Shipments

	Higher	Same	Lower	Index
Jul	29.44	47.44	23.12	6.31
Aug	26.08	36.35	37.58	-11.50

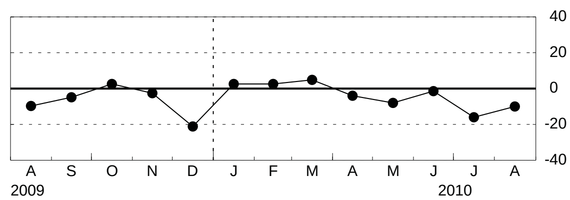
Shipments - Diffusion Index



Unfilled Orders

	Higher	Same	Lower	Index
Jul	9.52	65.08	25.40	-15.87
Aug	12.86	64.29	22.86	-10.00

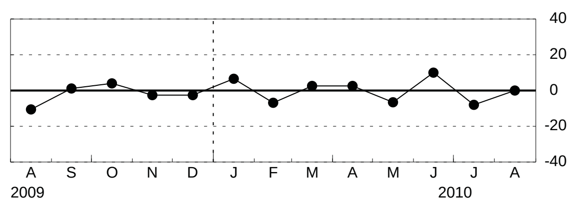
Unfilled Orders - Diffusion Index



Delivery Time

	Higher	Same	Lower	Index
Jul	7.94	76.19	15.87	-7.94
Aug	8.57	82.86	8.57	0.00

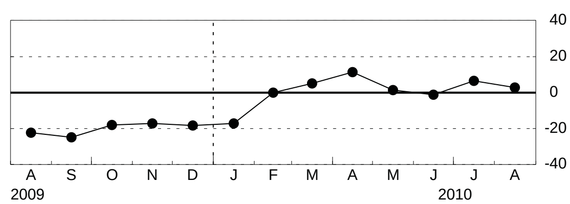
Delivery Time - Diffusion Index



Inventories

	Higher	Same	Lower	Index
Jul	25.40	55.56	19.05	6.35
Aug	28.57	45.71	25.71	2.86

Inventories - Diffusion Index



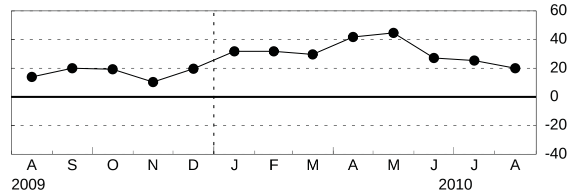
Current Indicators, *continued*

Change from Preceding Month

Prices Paid

	Higher	Same	Lower	Index
Jul	30.16	65.08	4.76	25.40
Aug	25.71	68.57	5.71	20.00

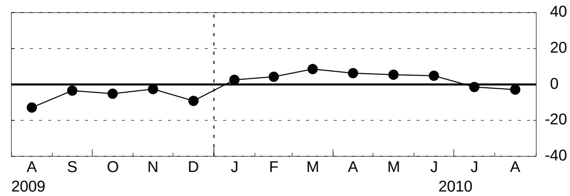
Prices Paid - Diffusion Index



Prices Received

	Higher	Same	Lower	Index
Jul	9.52	79.37	11.11	-1.59
Aug	7.14	82.86	10.00	-2.86

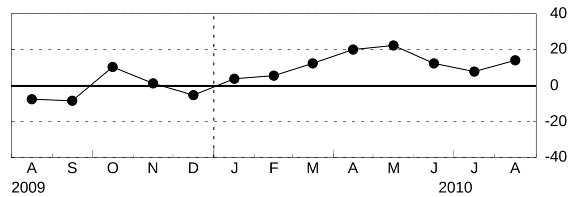
Prices Received - Diffusion Index



Number of Employees

	Higher	Same	Lower	Index
Jul	22.22	63.49	14.29	7.94
Aug	27.14	60.00	12.86	14.29

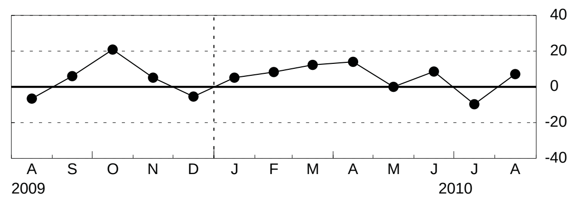
Number of Employees - Diffusion Index



Average Employee Workweek

	Higher	Same	Lower	Index
Jul	12.70	65.08	22.22	-9.52
Aug	17.14	72.86	10.00	7.14

Average Employee Workweek - Diffusion Index



Note: All data are seasonally adjusted.

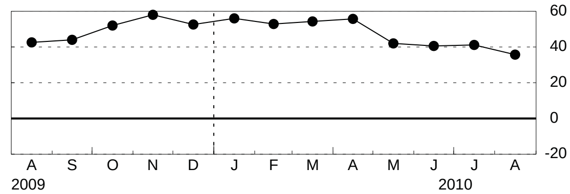
Forward-Looking Indicators

Expectations Six Months Ahead

General Business Conditions

	Higher	Same	Lower	Index
Jul	52.38	36.51	11.11	41.27
Aug	42.86	50.00	7.14	35.71

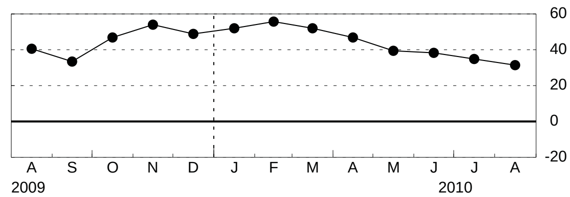
General Business Conditions - Diffusion Index



New Orders

	Higher	Same	Lower	Index
Jul	47.62	39.68	12.70	34.92
Aug	47.14	37.14	15.71	31.43

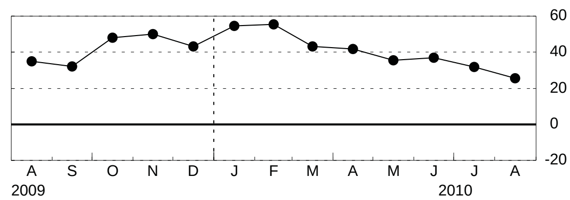
New Orders - Diffusion Index



Shipments

	Higher	Same	Lower	Index
Jul	47.62	36.51	15.87	31.75
Aug	41.43	42.86	15.71	25.71

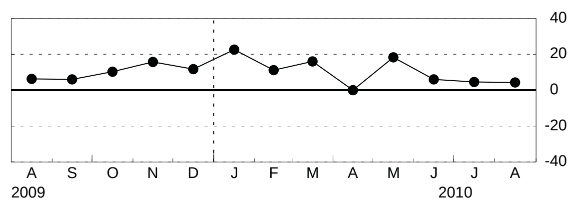
Shipments - Diffusion Index



Unfilled Orders

	Higher	Same	Lower	Index
Jul	20.63	63.49	15.87	4.76
Aug	15.71	72.86	11.43	4.29

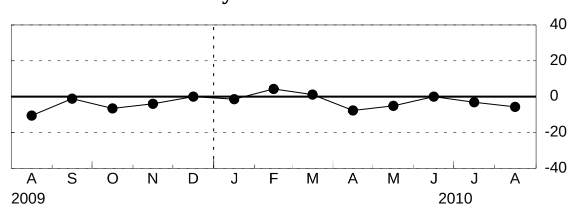
Unfilled Orders - Diffusion Index



Delivery Time

	Higher	Same	Lower	Index
Jul	11.11	74.60	14.29	-3.17
Aug	8.57	77.14	14.29	-5.71

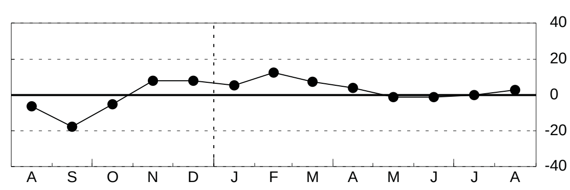
Delivery Time - Diffusion Index



Inventories

	Higher	Same	Lower	Index
Jul	20.63	58.73	20.63	0.00
Aug	25.71	51.43	22.86	2.86

Inventories - Diffusion Index



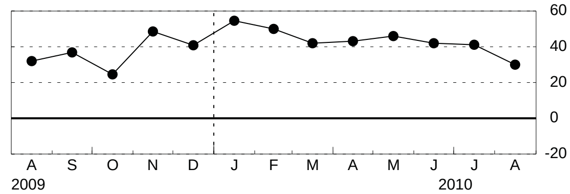
Forward-Looking Indicators, *continued*

Expectations Six Months Ahead

Prices Paid

	Higher	Same	Lower	Index
Jul	47.62	46.03	6.35	41.27
Aug	38.57	52.86	8.57	30.00

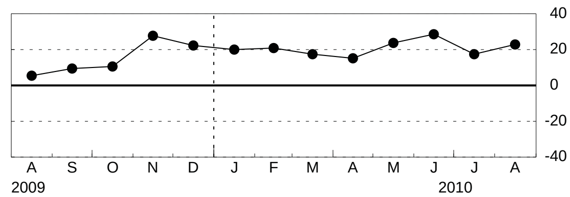
Prices Paid - Diffusion Index



Prices Received

	Higher	Same	Lower	Index
Jul	26.98	63.49	9.52	17.46
Aug	30.00	62.86	7.14	22.86

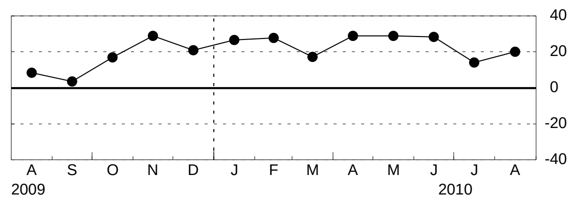
Prices Received - Diffusion Index



Number of Employees

	Higher	Same	Lower	Index
Jul	26.98	60.32	12.70	14.29
Aug	31.43	57.14	11.43	20.00

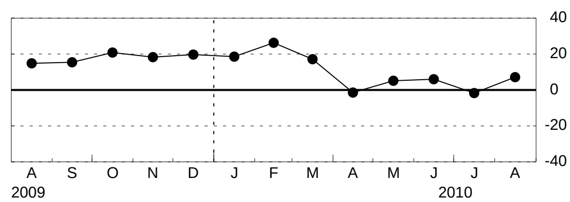
Number of Employees - Diffusion Index



Average Employee Workweek

	Higher	Same	Lower	Index
Jul	12.70	73.02	14.29	-1.59
Aug	14.29	78.57	7.14	7.14

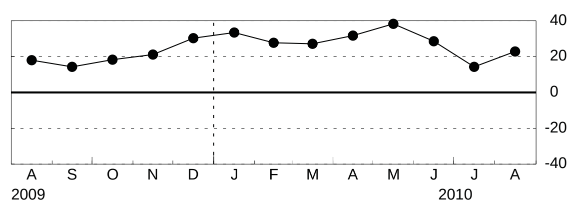
Average Employee Workweek - Diffusion Index



Capital Expenditures

	Higher	Same	Lower	Index
Jul	28.57	57.14	14.29	14.29
Aug	34.29	54.29	11.43	22.86

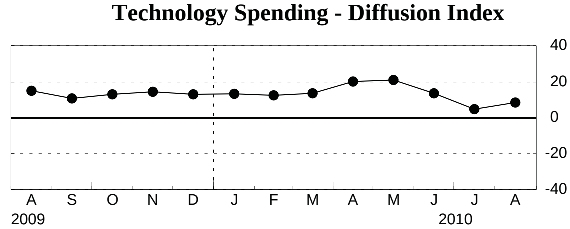
Capital Expenditures - Diffusion Index



Technology Spending

	Higher	Same	Lower	Index
Jul	15.87	73.02	11.11	4.76
Aug	17.14	74.29	8.57	8.57

Technology Spending - Diffusion Index



Note: All data are seasonally adjusted.

Supplemental Report:

Most Manufacturers Plan to Maintain or Hike Capital Spending

In a series of supplementary questions to the August *Empire State Manufacturing Survey*, firms were asked about their capital spending plans. Looking ahead to the next six to twelve months, 37 percent of respondents indicated that they expected to increase capital spending relative to its level in the past six to twelve months, while just 13 percent planned reductions. Responses were not quite as positive as they had been in January, when the same question was posed to survey participants. At that time, 44 percent of firms anticipated higher capital spending, while just 12 percent planned to reduce spending.

Of those firms in the current survey who predicted increased capital spending, 27 percent noted that "a considerable fraction" of the increase reflected investment that had been postponed because of the recession, down from 41 percent in January's survey. Another 46 percent of those surveyed this month attributed "some" of the increase to the recession. The most commonly cited factors behind increased investment were high expected growth in sales and a need to replace capital goods other than IT (information technology) equipment. In January's survey, the need to replace IT equipment and the need to replace other capital goods were the most frequently cited factors; high sales growth was less widely regarded as a factor. The most commonly mentioned factors behind steady or decreased capital investment in the current survey were low expected sales growth, low capacity utilization, and limited need to replace non-IT capital goods. Economic/financial uncertainty and limited need to replace IT equipment were also fairly widely cited. The cost or availability of external finance was not considered to be a major contributor to either increased or reduced spending. ■

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	
	August 2010	January 2010
Increase	37.1	44.0
Stay the same	50.0	44.0
Decrease	12.9	12.0

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	
	August 2010	January 2010
A considerable fraction	26.9	40.6
Some	46.2	37.5
Not much	26.9	21.9

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	
	August 2010	January 2010
Expected growth of sales is high	38.5	30.3
Capacity utilization is currently high	26.9	18.2
Need to replace information technology equipment	30.8	42.4
Need to replace other capital goods	38.5	39.4
Need to replace equipment that uses too much energy	7.7	15.2
Cost or availability of external finance has improved	0.0	0.0
Cash flow or balance sheet position has improved	15.4	24.2
Decreased economic/financial uncertainty	7.7	18.2
Other factors	23.1	36.4

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	
	August 2010	January 2010
Expected growth of sales is low	54.5	54.8
Capacity utilization is currently low	54.5	54.8
Limited need to replace information technology equipment	38.6	28.6
Limited need to replace other capital goods	54.5	35.7
Cost or availability of external finance has deteriorated	6.8	14.3
Cash flow or balance sheet position has deteriorated	13.6	19.0
Outsourcing	11.4	19.0
Increased or high economic/ financial uncertainty	45.5	33.3
Other factors	11.4	19.0