

November 2006

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Empire State Manufacturing

Survey



Summary

The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers improved at an accelerated pace in November. The general business conditions index climbed for a third consecutive month, to 26.7, its highest level since June. The new orders and unfilled orders indexes rose sharply, and the shipments index also advanced. The prices paid index edged up slightly but remained below the levels observed earlier this year, while the prices received index was positive and held steady. The index for number of employees rose to its highest level in more than a year. Future indexes rebounded after dipping last month.

In reply to a series of supplementary questions, 24 percent of firms indicated that they were currently holding higher cash balances than usual—down considerably from 40 percent in November 2005 when the same questions were asked (see table). Roughly 37 percent of respondents expected cash holdings to increase over the next twelve months, down from 45 percent in last year's survey. The most widely cited uses for high cash balances—in 2006 as in 2005—were paying down debt, meeting operational or liquidity needs, and increasing capital spending.

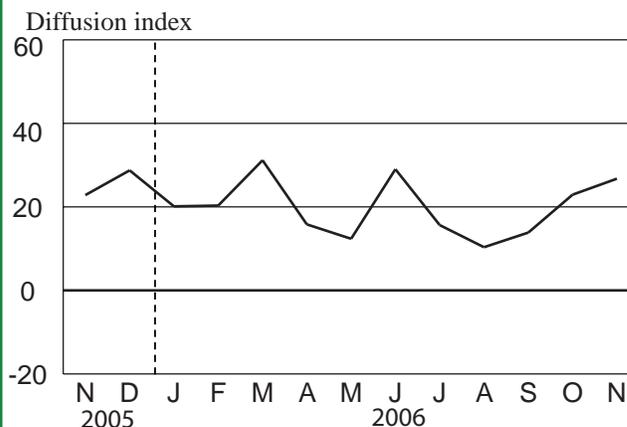
Business Conditions Improve Markedly

The general business conditions index rose for a third consecutive month, increasing 4 points to 26.7, its highest level since June. Forty-one percent of respondents reported that conditions had improved in November, while 14 percent reported that conditions had worsened. The new orders index rose sharply, climbing 11 points to 22.4, with 40 percent of respondents reporting an increase in orders. The shipments index rose for a fourth consecutive month, to 26.6. After dipping below zero last month, the unfilled orders index climbed to 10.2, its highest level in several months, with 27 percent reporting a rise in unfilled orders compared with 15 percent in October. The delivery time index rose from -5.0 to 4.7, indicating longer delivery times, and the inventories index held steady at 3.8.

Price Indexes Hold Steady

After falling appreciably last month, the prices paid index rose just slightly to 34.9, remaining considerably below the levels it held for much of the past year. The prices received index, at 17.0, was little changed from the levels of the past several months. The number of employees index rose to its highest level in well over a year, reaching 24.5. Thirty-six

General Business Conditions



percent of respondents—a record-high percentage for this survey—reported increased employment and 11 percent reported reduced employment. The average workweek index was roughly unchanged at 12.6.

The Outlook Improves

Future indexes remained positive and were higher than in October. The future general business conditions index rose 8 points, to 37.8, with more than half of respondents expecting conditions to improve over the next six months. The future new orders and shipments indexes moved up to similar levels. The future inventories index remained negative, falling to -4.7, indicating an expectation that inventory levels would be trimmed in the coming months. After falling sharply last month, the future prices paid index rose to 45.3, and the future prices received index, at 27.4, was unchanged from last month's level. The capital expenditures index held steady at 31.1, as did the technology spending index, at 17.0.

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.

Manufacturers Continue to Maintain High Cash Balances

This month, as in November 2005, respondents were asked a series of questions about their cash holdings and debt financing (see table). Replying to a question about expected changes in their firms' overall outstanding debt, 24 percent of respondents anticipated increases, while 37 percent expected declines. In last November's survey, these percentages were 29 percent and 24 percent, respectively.

In response to a separate question about cash holdings, 25 percent of firms said that they were currently holding higher cash balances than usual—down sharply from 40 percent in last year's survey. Similarly, the proportion of manufacturers expecting cash holdings to increase over the next year slipped from 45 percent in last November's survey to 37 percent this month. Roughly one

in five respondents expected cash balances to decrease—about the same proportion as last November. As was the case in last year's survey, the most widely cited uses for high cash balances were paying down debt, meeting operational or liquidity needs, and increasing capital spending.

Finally, when asked how they planned to finance capital expenditures over the next twelve months, respondents indicated that 53 percent of the expenditures would be financed by cash, on average, and another 30 percent by debt. Respondents expected that only 4 percent of capital expenditures would be financed by equity; the remaining 13 percent would involve the leasing of equipment. These percentages are fairly similar to those reported in last November's survey.

November 2006 Survey Results Responses to Supplementary Questions

How do you expect your firm's debt levels to change over the next twelve months?

	Percentage of Respondents	
	<u>Nov. 2006</u>	<u>Nov. 2005</u>
Increase	24	29
Remain the same	39	48
Decrease	37	24

How do you expect your firm's cash balances to change over the next twelve months?

	Percentage of Respondents	
	<u>Nov. 2006</u>	<u>Nov. 2005</u>
Increase	37	45
Remain the same	44	37
Decrease	19	19

Are you currently maintaining higher cash balances than usual, relative to your level of business activity? If so, how do you expect to use excess cash and liquid assets over the next twelve months?

	Percentage of Respondents*	
	<u>Nov. 2006</u>	<u>Nov. 2005</u>
Yes	25	40
Pay down debt	18	20
Meet operational/liquidity needs	14	23
Increase capital spending	10	17
Corporate acquisitions	9	12
Offset negative cash flows	8	12
Expand workforce	3	4
Buy back equity	3	3

How do you expect to finance capital spending over the next twelve months?

	Average Percentage of Expenditures	
	<u>Nov. 2006</u>	<u>Nov. 2005</u>
Cash	55	55
Debt	34	33
Equity	4	3
Leasing of equipment	13	9

*The values in this panel are percentages of all respondents, not just those respondents who affirmed that they were maintaining higher cash balances than usual. The various uses of cash and liquid assets add up to more than the total saying "yes" because respondents cited multiple uses.

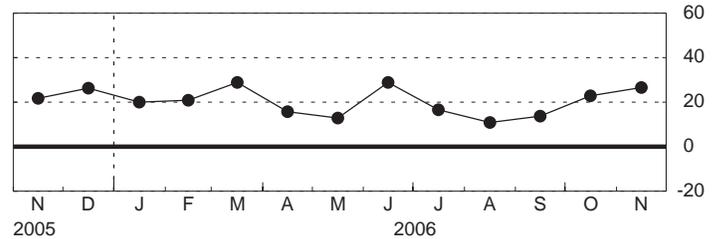
Empire State Manufacturing Survey, November 2006

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	37.93	47.06	15.01	22.92
Nov	40.86	44.95	14.20	26.66

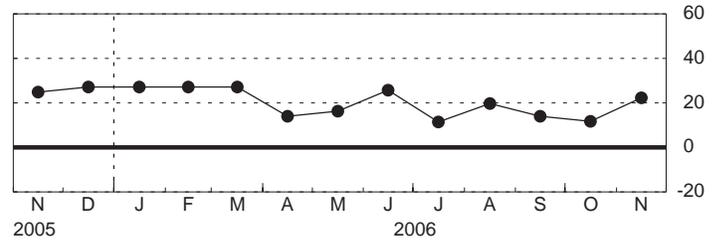
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	34.01	43.73	22.26	11.75
Nov	40.32	41.74	17.94	22.38

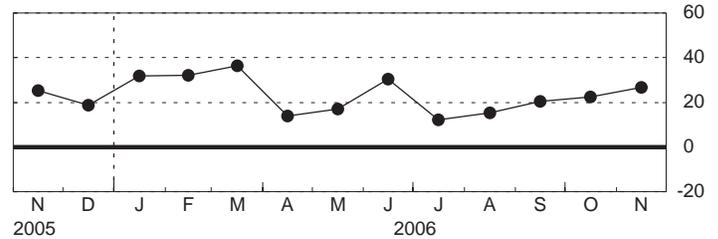
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	40.24	42.05	17.71	22.54
Nov	43.98	38.68	17.34	26.63

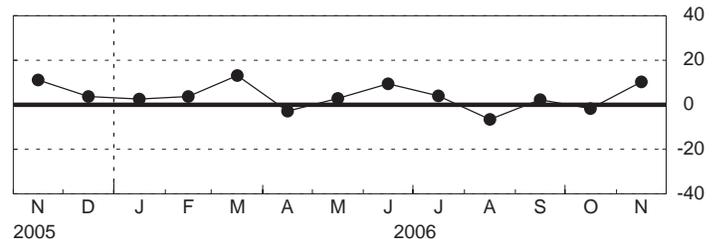
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	15.48	67.52	16.99	-1.51
Nov	27.48	55.29	17.24	10.24

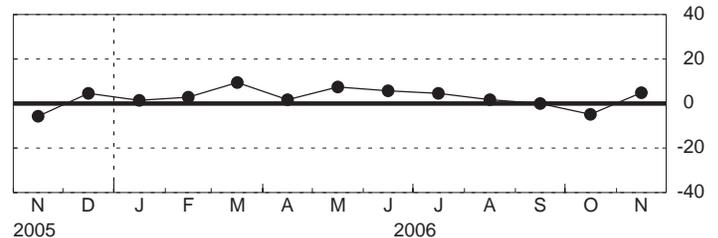
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	10.00	75.00	15.00	-5.00
Nov	13.21	78.30	8.49	4.72

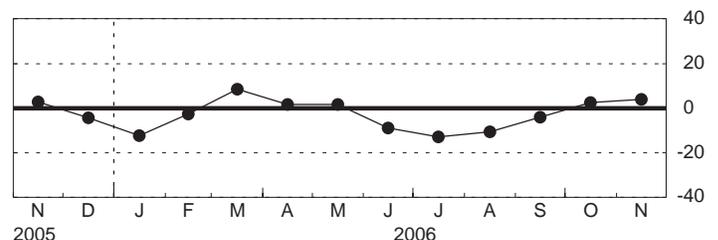
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	27.50	47.50	25.00	2.50
Nov	30.19	43.40	26.42	3.77

Inventories - Diffusion Index



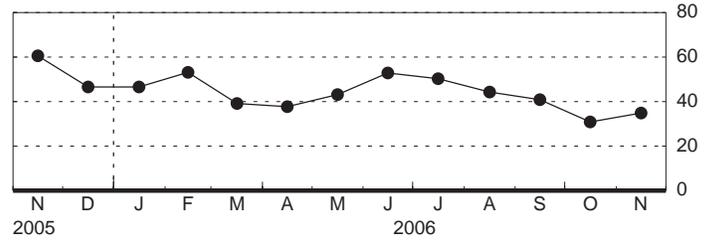
Empire State Manufacturing Survey, November 2006

Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	34.17	62.50	3.33	30.83
Nov	34.91	65.09	0.00	34.90

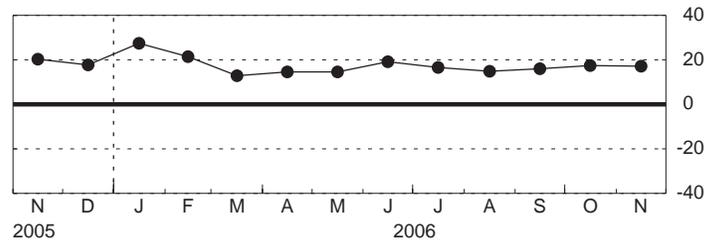
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	20.00	77.50	2.50	17.50
Nov	21.70	73.58	4.72	16.98

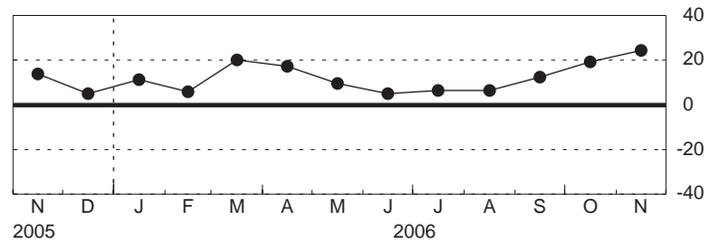
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	31.06	57.27	11.67	19.39
Nov	35.82	52.86	11.32	24.50

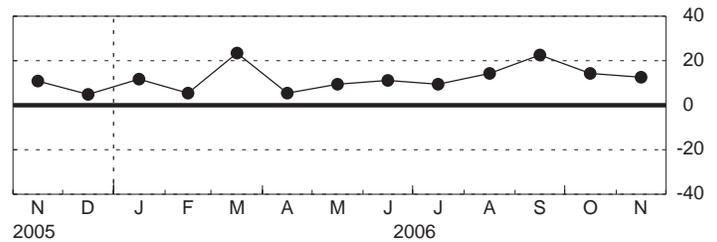
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	25.27	63.89	10.83	14.44
Nov	25.85	60.95	13.21	12.64

Average Employee Workweek - Diffusion Index

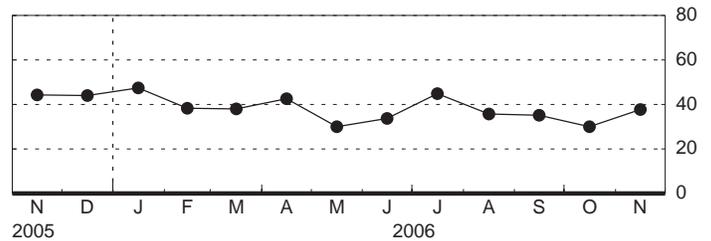


Empire State Manufacturing Survey, November 2006, Expectations Six Months Ahead Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	47.01	36.14	16.84	30.17
Nov	51.02	35.72	13.26	37.76

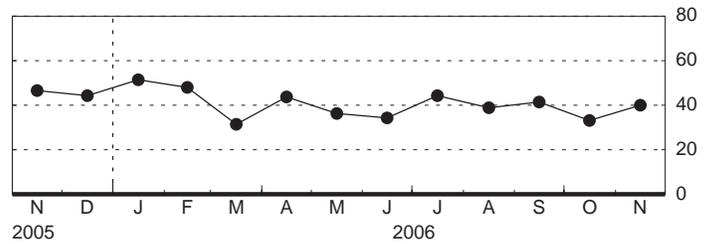
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	50.31	32.44	17.26	33.05
Nov	52.10	35.85	12.05	40.05

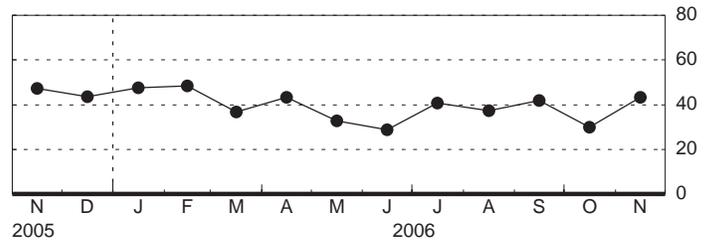
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	47.37	35.26	17.37	30.00
Nov	53.44	36.53	10.03	43.41

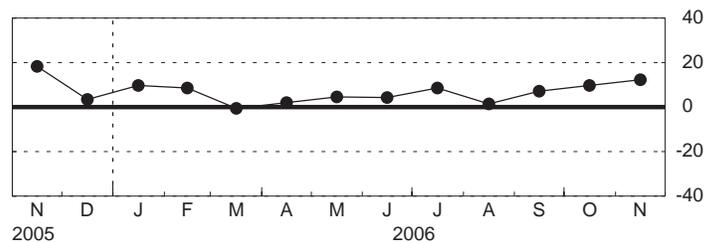
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	20.20	69.23	10.57	9.64
Nov	24.44	63.54	12.02	12.41

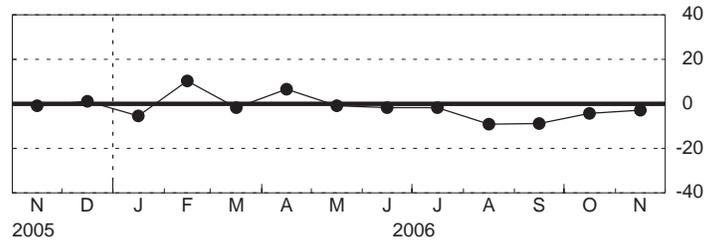
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	6.72	82.35	10.92	-4.20
Nov	9.43	78.30	12.26	-2.83

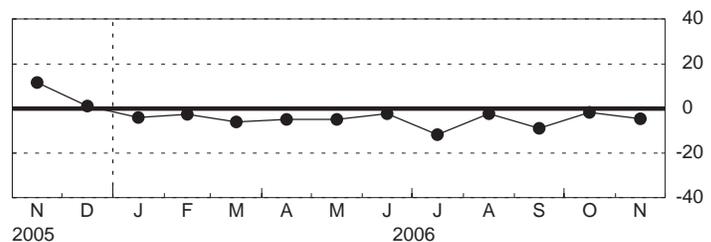
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	23.53	51.26	25.21	-1.68
Nov	22.64	50.00	27.36	-4.72

Inventories - Diffusion Index

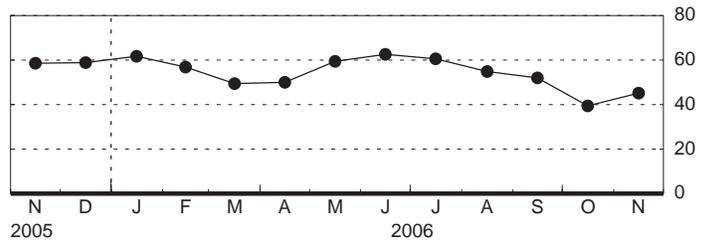


Empire State Manufacturing Survey, November 2006, Expectations Six Months Ahead Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	46.22	47.06	6.72	39.50
Nov	46.23	52.83	0.94	45.28

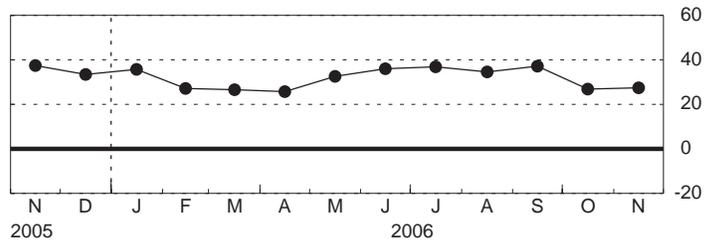
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	35.29	56.30	8.40	26.89
Nov	33.96	59.43	6.60	27.36

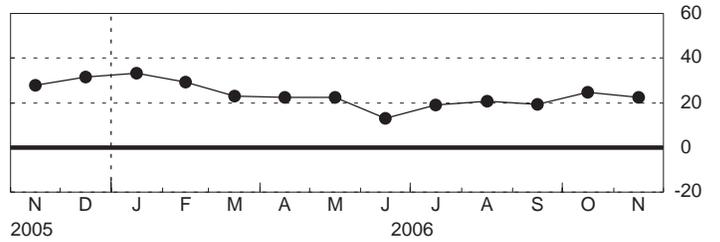
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	35.29	54.27	10.44	24.86
Nov	32.08	58.33	9.60	22.48

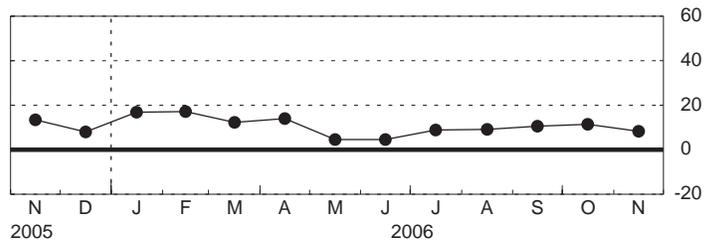
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	19.63	72.28	8.09	11.55
Nov	18.78	70.92	10.31	8.47

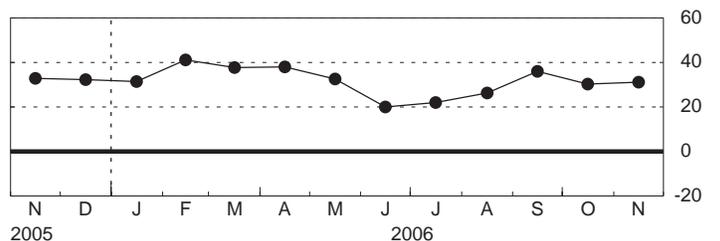
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	40.34	49.58	10.08	30.25
Nov	38.68	53.77	7.55	31.13

Capital Expenditures - Diffusion Index



Technology Spending

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	26.89	63.87	9.24	17.65
Nov	25.47	66.04	8.49	16.98

Technology Spending - Diffusion Index

