

December 2006

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Empire State Manufacturing

Survey



Summary

The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers improved at a slightly slower pace in December than in November. The general business conditions index was 23.1. The new orders index rose slightly while the shipments index remained near its November levels. The unfilled orders index fell sharply into negative territory. The prices paid index eased to its lowest level of the year, while the prices received index dipped slightly. Employment indexes remained relatively high. Future indexes generally improved, indicating a higher level of optimism. The capital spending and technology indexes rose markedly.

Supplementary survey questions—identical to those included in the December 2005 survey—asked manufacturers to quantify the change in the prices they paid for a number of major inputs, or budget categories, in 2006 as well as the expected change in those prices in 2007. Respondents, on average, expected a price hike of roughly 3½ percent for wages and 7 percent for employee benefits in 2007—in both cases, about the same increase they reported for 2006. The costs of insurance (excluding employee health benefits) and outside services were expected to rise about 3 percent in 2007, a bit less than reported for 2006. However, the costs of both energy and other commodities were expected to rise by slightly more than 5 percent, substantially less than their actual reported increases in 2006.

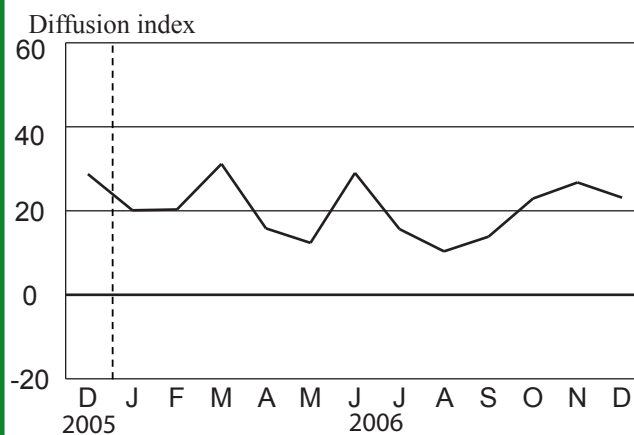
Business Conditions Continue to Improve

The general business conditions index fell 3½ points to 23.1. Forty percent of respondents reported that conditions had improved in December, while 17 percent reported that conditions had worsened. The new orders index rose slightly, to 25.1, and the shipments index was virtually unchanged at 26.9. The unfilled orders index fell sharply, from 10.2 to -11.8, its lowest level in considerably more than a year. The delivery time index remained near its November level, at 1.1. The inventories index dropped into negative territory, from 3.8 to -7.9, with almost one-third of respondents reporting that inventories were lower in December.

Prices Paid Index Retreats Further

The prices paid index fell to 28.1, its lowest level in more than a year, with 33 percent of respondents reporting higher prices and 4 percent reporting lower prices. The prices received index, at 13.5, remained near the level it held for much of the past year, with 17 percent receiving higher prices and 3

General Business Conditions



percent receiving lower prices. Employment indexes remained relatively high, although the index for number of employees slipped to 14.1 from its November peak of 24.5. The average workweek index held steady at 12.5.

Favorable Conditions Are Expected to Continue

Future indexes generally rose, indicating a higher level of optimism among respondents. The future general business conditions index advanced for a second consecutive month, reaching 42.6, its highest level since July, with 51 percent of respondents expecting conditions to improve further over the next six months. The future new orders and shipments indexes reached similar levels. While the future unfilled orders index fell moderately, the future inventories index climbed well into positive territory for the first time this year—an indication that inventories are expected to expand over the next six months. The future prices paid and prices received indexes both rose modestly. The future index for number of employees increased sharply, to its highest level since January. The capital spending and technology spending indexes both posted significant increases.

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.

Worker Benefits Top the List of Anticipated Cost Increases

This month's supplementary questions focused on recent and expected changes in the prices paid by firms for major inputs or budget categories, including wages, benefits, insurance, energy, and other commodities. The same set of questions was asked a year ago, in December 2005. The responses to the questions for December 2006 are shown in the table below, with expectations from the December 2005 survey—what manufacturers were expecting at this time last year—provided for comparison (in the final column).

Looking ahead to calendar year 2007, the respondents foresaw little change in worker compensation trends: they predicted that worker benefit costs would jump 7 percent in 2007 and that wages would increase by 3.4 percent—in both cases, virtually the same increases reported for 2006. Costs in other categories, however, were expected to decelerate: (non-medical) insurance costs would

rise 2.8 percent, down from 3.6 percent in 2006, while growth in the cost of other services would slow from 3.9 percent to 3.1 percent. Similarly, respondents anticipated slower growth in the cost of energy and of other commodities. Prices paid for both budget categories were expected to rise by slightly more than 5 percent in 2007—down from the actual increases of 9.4 percent and 7.9 percent, respectively, reported for 2006.

A comparison of expected price changes from the 2005 survey with the actual outcomes reported for 2006 reveals that compensation-related cost increases were quite close to expectations, while most other categories showed somewhat smaller increases than anticipated. In the case of energy, however, respondents reported a rise of 9.6 percent, well below the expected 15 percent average increase.

December 2006 Survey Results Responses to Supplementary Questions

For each of the following budget categories, please indicate the approximate percentage change in the prices you paid in 2006 and the expected percentage change in the price in 2007:	December 2006 Survey		December 2005 Survey Results
	Average Reported % Change in 2006	Average Expected % Change in 2007	
Wages	3.4	3.4	3.6
Employee benefits	7.2	6.9	7.1
Insurance (liability, fire, etc.)	3.6	2.8	4.9
Outside services	3.9	3.1	4.6
Energy	9.4	5.2	14.9
Other commodities	7.9	5.5	6.6
All other*	--	--	6.2
Overall	6.3	5.6	--

* In the 2005 survey, the final category was "all other"; in the 2006 survey this category was replaced by "overall."

What would you say is the percentage chance that, over the next six months, your prices paid will. . .	December 2006 Survey
	Average Percentage Chance of Specified Price Change
Increase 8% or more	9.0
Increase 3-8%	45.2
Increase 1-3%	29.6
Stay within 1% of current levels	12.5
Decrease 1-3%	2.6
Decrease 3-8%	0.9
Decrease 8% or more	0.2

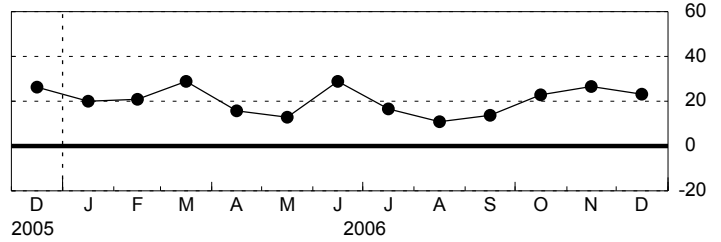
Empire State Manufacturing Survey, December 2006

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	40.86	44.95	14.20	26.66
Dec	40.51	42.11	17.38	23.13

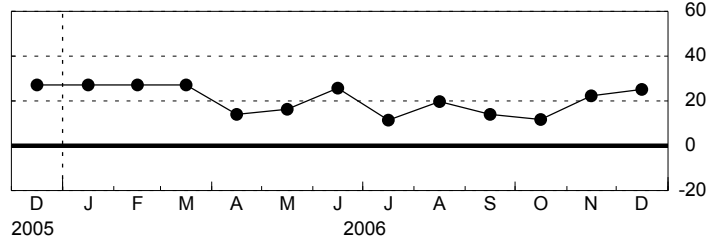
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	40.32	41.74	17.94	22.38
Dec	41.87	41.38	16.75	25.12

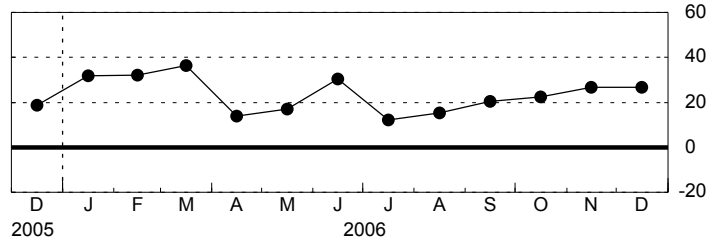
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	43.98	38.68	17.34	26.63
Dec	43.68	39.50	16.82	26.85

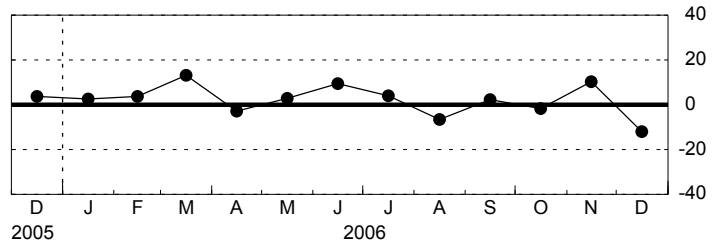
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	27.48	55.29	17.24	10.24
Dec	15.60	56.97	27.43	-11.83

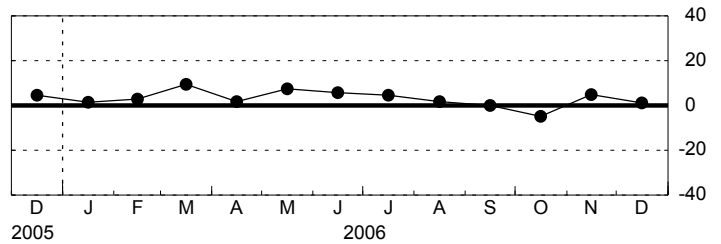
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	13.21	78.30	8.49	4.72
Dec	13.48	74.16	12.36	1.12

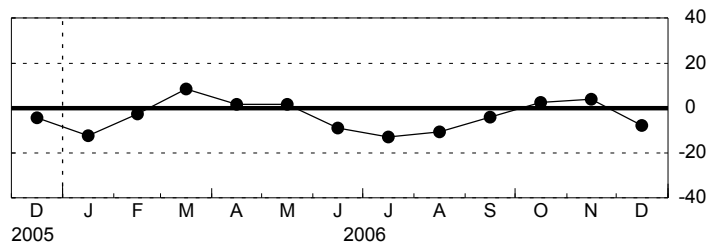
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	30.19	43.40	26.42	3.77
Dec	24.72	42.70	32.58	-7.87

Inventories - Diffusion Index



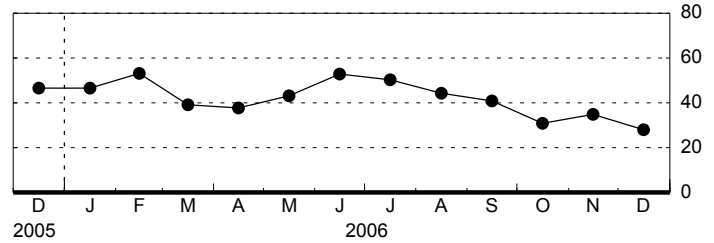
Empire State Manufacturing Survey, December 2006

Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	34.91	65.09	0.00	34.90
Dec	32.58	62.92	4.49	28.09

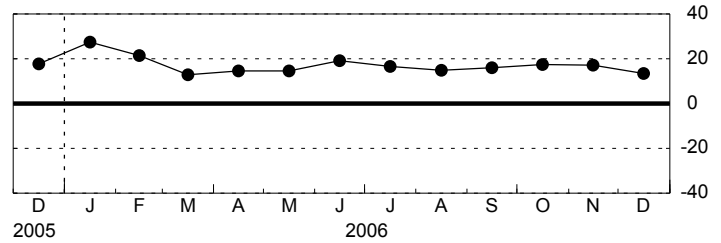
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	21.70	73.58	4.72	16.98
Dec	16.85	79.78	3.37	13.48

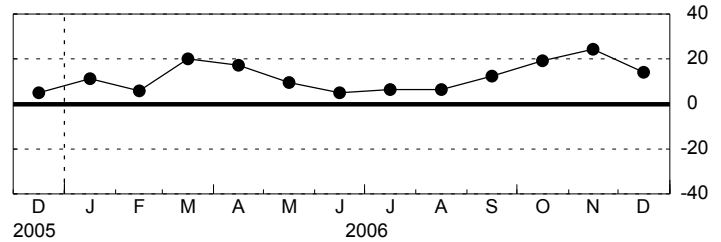
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	35.82	52.86	11.32	24.50
Dec	28.74	56.66	14.61	14.13

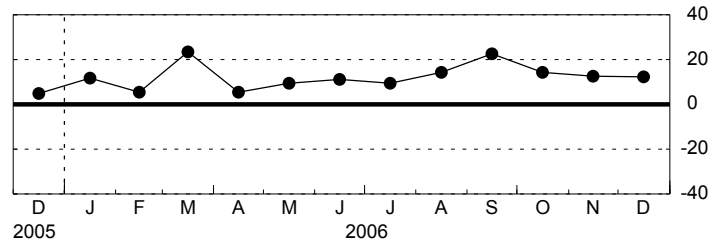
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	25.85	60.95	13.21	12.64
Dec	24.81	62.83	12.36	12.45

Average Employee Workweek - Diffusion Index

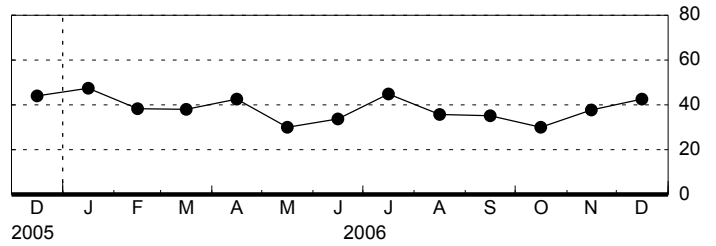


Empire State Manufacturing Survey, December 2006, Expectations Six Months Ahead Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	51.02	35.72	13.26	37.76
Dec	50.52	41.58	7.90	42.62

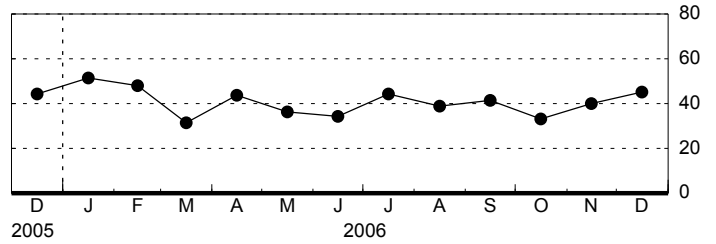
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	52.10	35.85	12.05	40.05
Dec	52.70	39.85	7.46	45.24

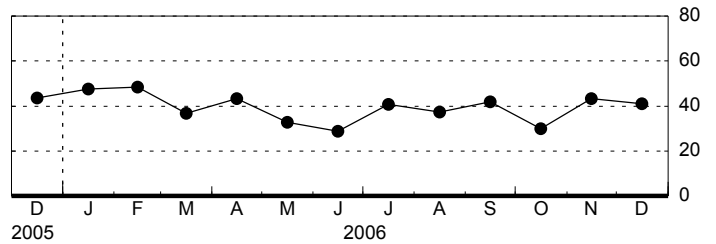
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	53.44	36.53	10.03	43.41
Dec	47.93	45.03	7.04	40.89

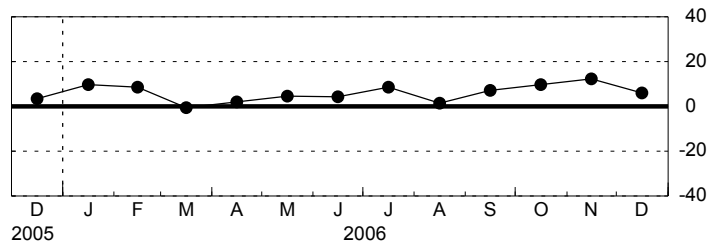
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	24.44	63.54	12.02	12.41
Dec	17.46	71.11	11.43	6.02

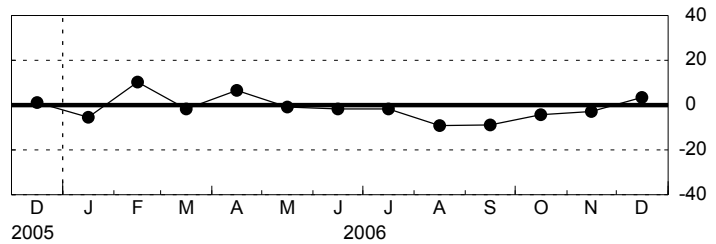
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	9.43	78.30	12.26	-2.83
Dec	14.61	74.16	11.24	3.37

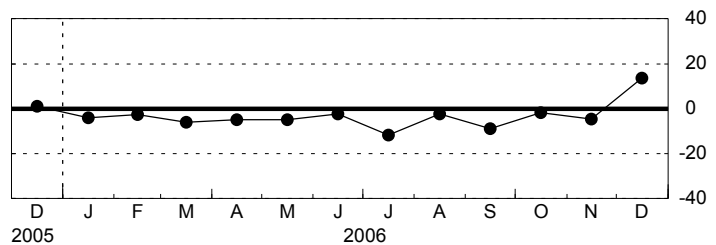
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	22.64	50.00	27.36	-4.72
Dec	35.96	41.57	22.47	13.48

Inventories - Diffusion Index



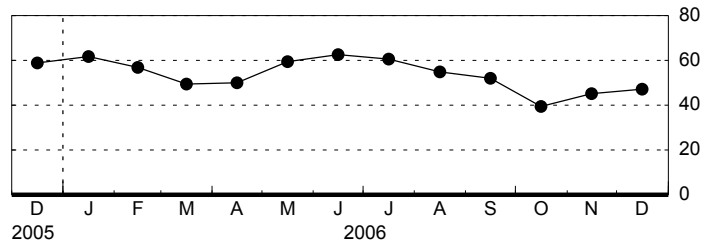
Empire State Manufacturing Survey, December 2006, Expectations Six Months Ahead

Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	46.23	52.83	0.94	45.28
Dec	51.69	43.82	4.49	47.19

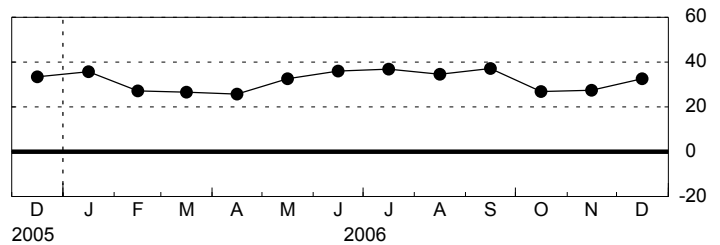
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	33.96	59.43	6.60	27.36
Dec	37.08	58.43	4.49	32.58

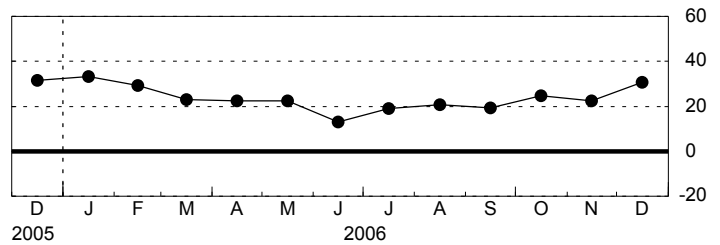
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	32.08	58.33	9.60	22.48
Dec	40.45	49.93	9.62	30.83

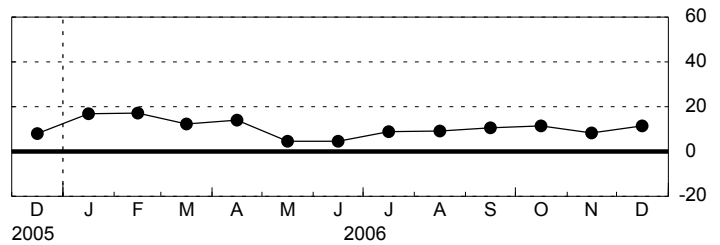
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	18.78	70.92	10.31	8.47
Dec	24.16	63.19	12.65	11.51

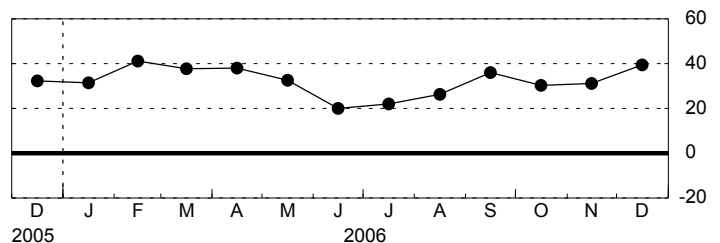
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	38.68	53.77	7.55	31.13
Dec	48.31	42.70	8.99	39.33

Capital Expenditures - Diffusion Index



Technology Spending

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	25.47	66.04	8.49	16.98
Dec	31.46	65.17	3.37	28.09

Technology Spending - Diffusion Index

