

# November 2005

## Empire State Manufacturing

Survey

For release: November 15, 2005 8:30 a.m.

### 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 rose to 22.8. The new orders and shipments indexes inched higher, while the unfilled orders index rose sharply, the latter to a level not reached since 2001. Upward pricing pressures continued in November, with the indexes for both prices paid and prices received positive and higher than last month. The index for number of employees rose to its highest level of the year. Future indexes indicated an expectation that conditions will continue to improve and that prices will continue to rise over the next six months.

In a series of supplementary questions asked both this month and in the November 2004 survey, 40 percent of respondents said that they currently hold higher cash balances than usual—up from 31 percent in the 2004 survey (see table on page 2). An even higher proportion, 45 percent expect cash holdings to increase over the next twelve months, although this figure is down from 48 percent in last year's survey. The most widely cited uses for high cash balances include meeting operational or liquidity needs, paying down debt, and increasing capital spending.

### The Pace of Expansion Accelerates

The general business conditions index rose 11 points in November, reaching 22.8. Forty percent of respondents—compared with 31 percent in October—reported that conditions had improved from the preceding month, while 18 percent reported that conditions had deteriorated, nearly the same percentage as in October. The new orders index rose slightly, to 25.9. The shipments index rose 4 points to 27.6, with 46 percent of respondents reporting an increase in shipments. The unfilled orders index jumped 15 points to 15.1, its highest level since September 2001, with 28 percent of respondents reporting an increase in unfilled orders. The delivery time index dropped to -5.8. The inventories index fell to 2.9 from 4.2 in October.

### Prices Continue to Escalate

The prices paid index continued to rise for a fourth consecutive month, reaching a record high of 60.6, with nearly two-thirds of respondents reporting higher prices in November. The prices received index rose to 20.2, with 27 percent charging higher prices for their products.

### General Business Conditions



The number of employees index rose to 16.9, its highest level in more than a year, with 31 percent increasing employment and 14 percent reducing employment. The average workweek index fell slightly but remained positive at 11.8.

### Expanded Activity Expected to Continue

Future indexes suggest that respondents expect continued growth in business activity over the next six months. The future general business conditions index rose 14 points to 46.9, with 55 percent of respondents expecting conditions to improve. The future new orders and shipments indexes reached similarly high levels. The future unfilled orders index rose sharply to 19.2. The future inventories index shot up from -5.2 in October to 11.5, a level not reached since January. Future price indexes remained elevated. The future prices paid index retreated to 58.7 from 71.9, with 63 percent of respondents expecting to pay higher prices. The future prices received index was 37.5, with 45 percent of respondents expecting to receive higher prices. The capital expenditures index advanced to 32.7.

### 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.

### Manufacturers Still Maintain High Cash Balances

This month, we begin reporting firms' responses to supplementary survey questions of current interest. A select number of questions are asked each month on a rotating basis. The responses to the questions for November 2005, as well as for November 2004, are shown in the table to the right. Queried about expected changes in their overall outstanding debt, almost 30 percent of respondents said that they anticipated increases, while 24 percent were expecting declines. In the November 2004 survey, the corresponding figures were 26 percent and 31 percent, respectively.

Asked about their cash balances, 40 percent of respondents reported holding higher balances than usual—up from 31 percent in last year's survey. An even higher proportion, 45 percent, expected cash holdings to increase over the next twelve months, while 19 percent expected them to decrease. These responses are somewhat less lopsided than the corresponding responses to the November 2004 survey, when 48 percent anticipated increases while 9 percent expected declines. The most widely cited uses for high cash balances included meeting operational or liquidity needs, paying down debt, and increasing capital spending. Finally, when asked how they planned to finance capital expenditures over the next twelve months, respondents indicated that 55 percent of their expenditures would be financed by cash, on average, and another 33 percent by debt. Only 3 percent of expenditures would be financed by equity, while the leasing of equipment would constitute the remaining 9 percent of expenditures.

### 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. 2005</u>	<u>Nov. 2004</u>
Increase	29	26
Remain the same	48	43
Decrease	24	31

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

	Percentage of Respondents	
	<u>Nov. 2005</u>	<u>Nov. 2004</u>
Increase	45	48
Remain the same	37	43
Decrease	19	9

#### 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. 2005</u>	<u>Nov. 2004</u>
Yes	40	31
Pay down debt	20	26
Meet operational/liquidity needs	23	22
Increase capital spending	17	26
Offset negative cash flows	12	13
Corporate acquisitions	12	14
Expand workforce	4	8
Buy back equity	3	6

#### How do you expect to finance capital spending over the next 12 months?

	Average Percentage of Expenditures	
	<u>Nov. 2005</u>	<u>Nov. 2004</u>
Cash	55	n.a.
Debt	33	n.a.
Equity	3	n.a.
Leasing of equipment	9	n.a.

\* All these numbers are expressed as percentage of all respondents, not just those indicating "yes". The various uses of cash add up to more than the total saying "yes" due to multiple mentions.

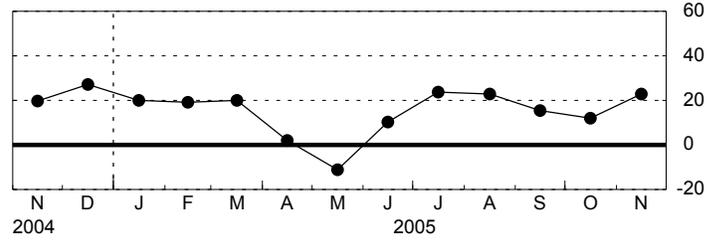
# Empire State Manufacturing Survey, November 2005

Seasonally Adjusted

## General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	30.61	50.87	18.52	12.08
Nov	40.45	41.93	17.62	22.82

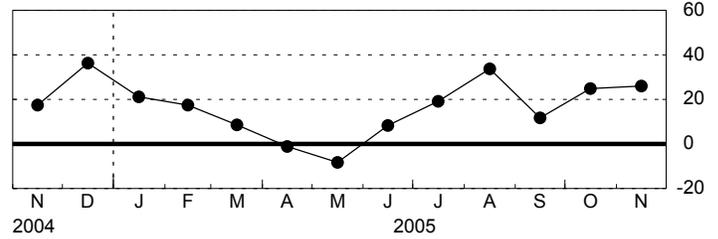
## General Business Conditions - Diffusion Index



## New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	39.23	46.40	14.37	24.85
Nov	44.59	36.75	18.67	25.92

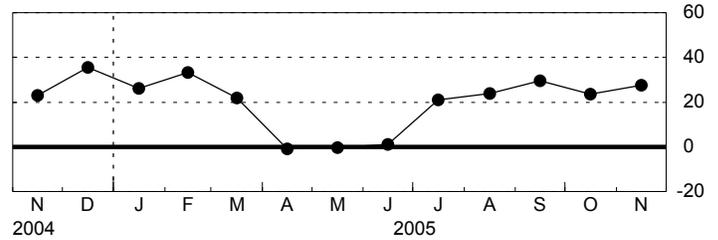
## New Orders - Diffusion Index



## Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	36.81	49.91	13.28	23.53
Nov	46.46	34.68	18.86	27.60

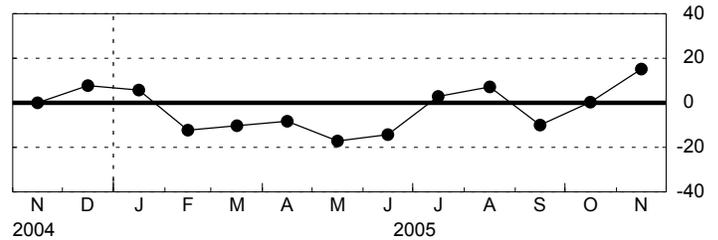
## Shipments - Diffusion Index



## Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	13.24	73.92	12.84	0.41
Nov	27.89	59.29	12.82	15.07

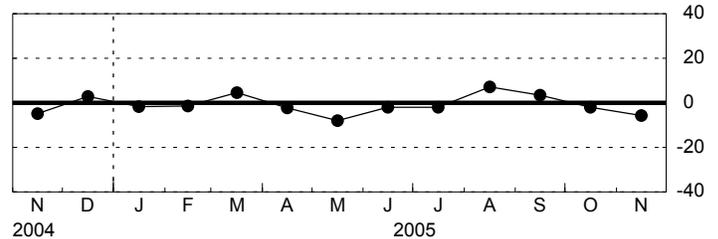
## Unfilled Orders - Diffusion Index



## Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	9.38	79.17	11.46	-2.08
Nov	8.65	76.92	14.42	-5.77

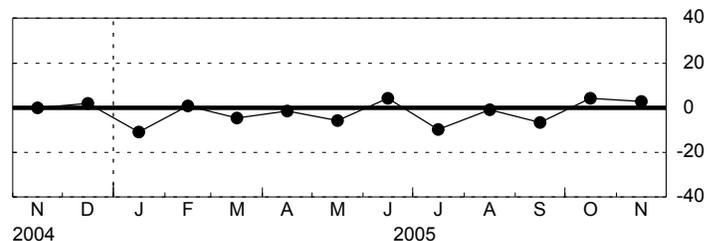
## Delivery Time - Diffusion Index



## Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	20.83	62.50	16.67	4.17
Nov	23.08	56.73	20.19	2.88

## Inventories - Diffusion Index

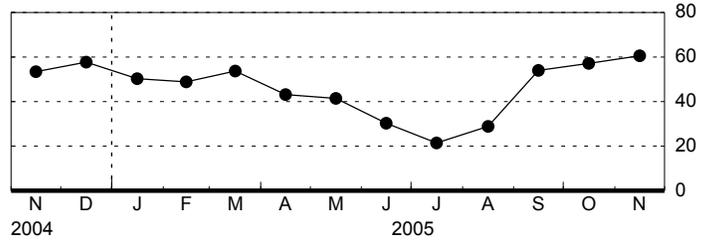


## Empire State Manufacturing Survey, November 2005 Seasonally Adjusted

### Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	60.42	36.46	3.13	57.29
Nov	63.46	33.65	2.88	60.58

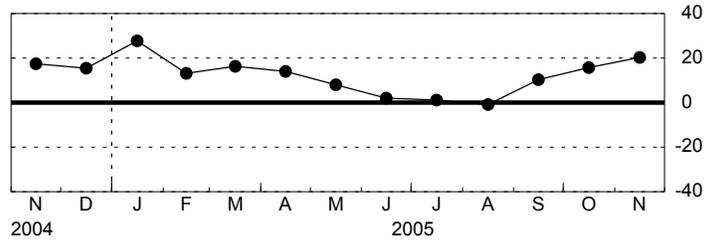
**Prices Paid - Diffusion Index**



### Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	20.83	73.96	5.21	15.63
Nov	26.92	66.35	6.73	20.19

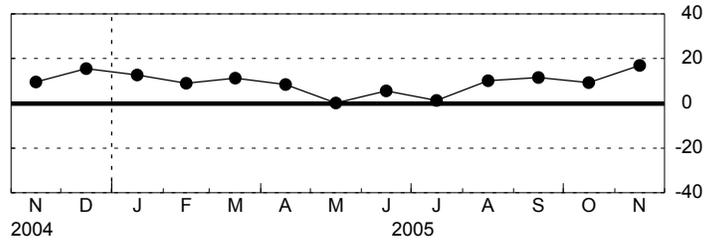
**Prices Received - Diffusion Index**



### Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	23.85	61.57	14.58	9.26
Nov	31.33	54.25	14.42	16.91

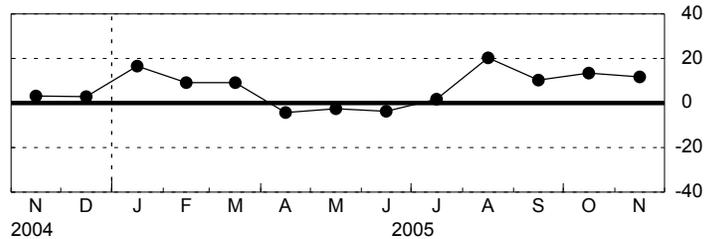
**Number of Employees - Diffusion Index**



### Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	25.97	61.53	12.50	13.47
Nov	25.29	61.25	13.46	11.82

**Average Employee Workweek - Diffusion Index**

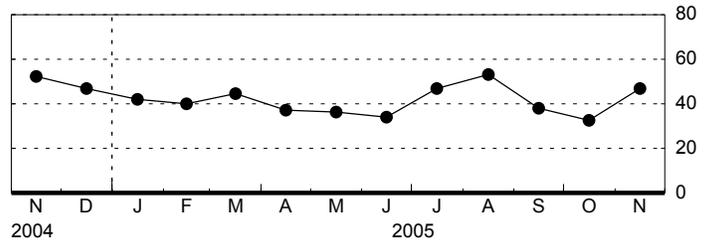


# Empire State Manufacturing Survey, November 2005, Expectations Six Months Ahead Seasonally Adjusted

## General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	44.81	43.01	12.18	32.64
Nov	54.77	37.35	7.87	46.90

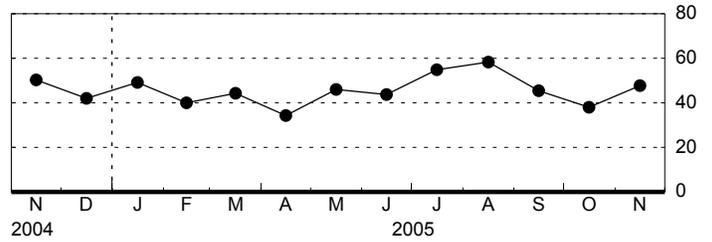
## General Business Conditions - Diffusion Index



## New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	50.28	37.37	12.34	37.94
Nov	56.83	33.87	9.30	47.54

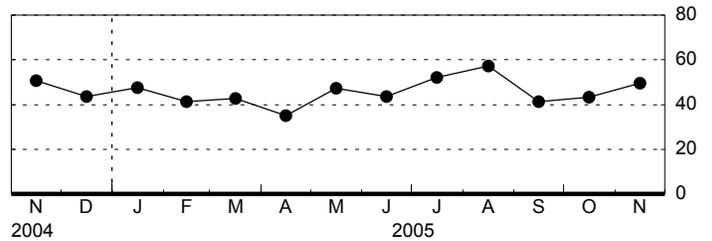
## New Orders - Diffusion Index



## Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	53.11	36.95	9.94	43.17
Nov	57.54	34.62	7.84	49.70

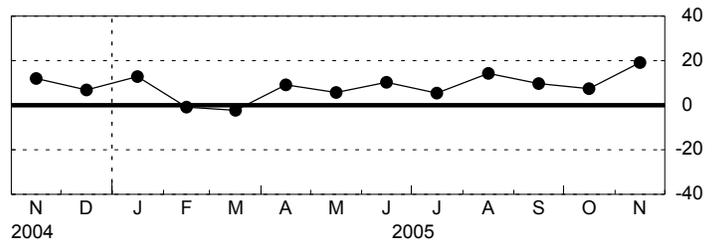
## Shipments - Diffusion Index



## Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	17.84	71.77	10.40	7.44
Nov	24.39	70.40	5.22	19.17

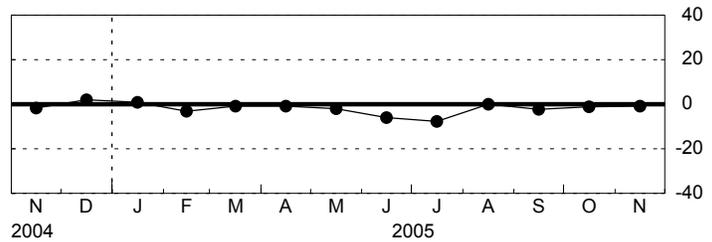
## Unfilled Orders - Diffusion Index



## Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	7.29	84.38	8.33	-1.04
Nov	10.58	77.88	11.54	-0.96

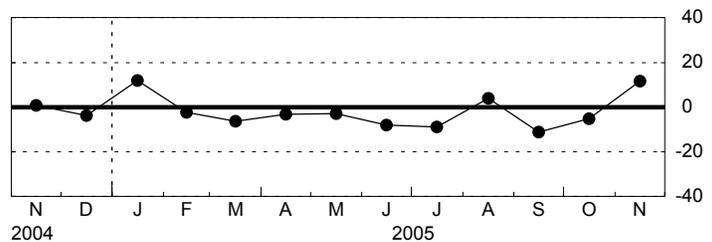
## Delivery Time - Diffusion Index



## Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	18.75	57.29	23.96	-5.21
Nov	30.77	50.00	19.23	11.54

## Inventories - Diffusion Index



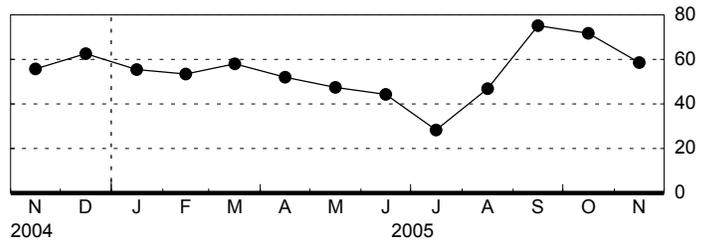
# Empire State Manufacturing Survey, November 2005, Expectations Six Months Ahead

Seasonally Adjusted

## Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	76.04	19.79	4.17	71.88
Nov	63.46	31.73	4.81	58.65

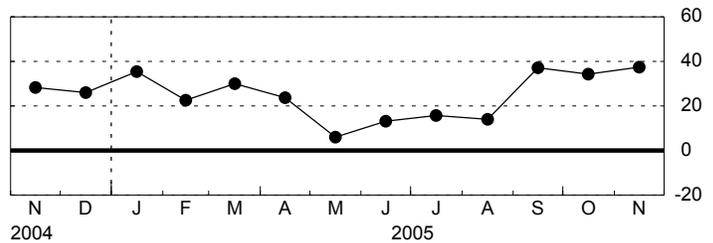
## Prices Paid - Diffusion Index



## Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	42.71	48.96	8.33	34.38
Nov	45.19	47.12	7.69	37.50

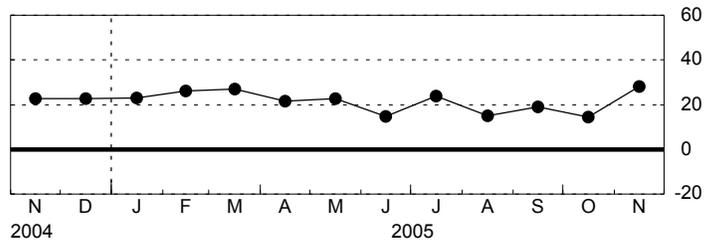
## Prices Received - Diffusion Index



## Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	29.17	56.22	14.61	14.55
Nov	38.46	51.15	10.39	28.07

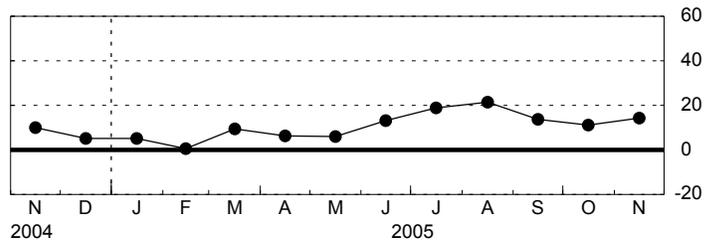
## Number of Employees - Diffusion Index



## Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	21.09	68.95	9.96	11.13
Nov	22.46	69.43	8.11	14.34

## Average Employee Workweek - Diffusion Index



## Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Oct	36.46	51.04	12.50	23.96
Nov	43.27	46.15	10.58	32.69

## Capital Expenditures - Diffusion Index

