

December 2005

Empire State Manufacturing

Survey

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

Summary

The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers continued to improve at an accelerated pace in December. The general business conditions index rose for a second consecutive month, to 28.7. The new orders, shipments, and unfilled orders indexes were all above zero, although the latter two retreated somewhat from their November levels. The prices paid index remained elevated, but fell 13 points from November's record level, while the prices received index held relatively steady at 18.0. The index for number of employees fell to 6.5, while the workweek index fell to just above zero. Future indexes reflected optimism about conditions six months ahead, but expectations were somewhat lower than in November.

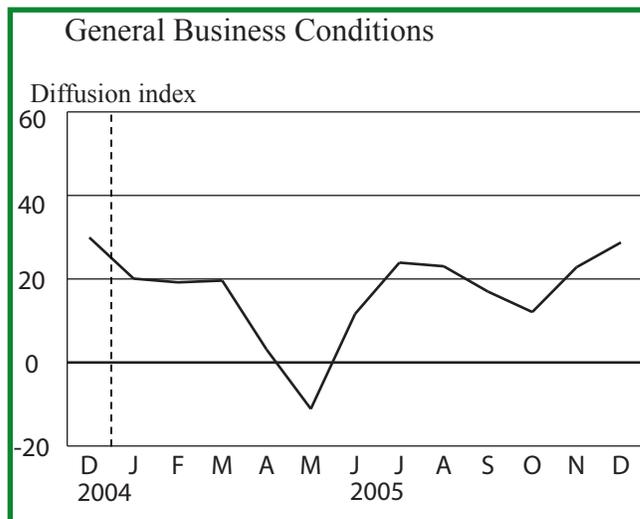
In a series of supplementary questions, manufacturers were asked about recent and expected changes in prices paid for a number of major budget categories in 2005. On average, respondents reported price hikes of 3 to 3½ percent for wages, insurance (excluding employee health benefits), and outside services. However, respondents noted significantly larger average increases of nearly 7 percent for employee benefits and close to 8 percent for non-energy commodities, and an increase of more than 17 percent in energy costs. Looking ahead to calendar 2006, manufacturers anticipated a further rise of 15 percent in energy prices, and a roughly 7 percent increase in prices paid for both non-energy commodities and employee benefits.

The Pace of Growth Accelerates for a Second Consecutive Month

The general business conditions index rose several points to reach 28.7, its highest level of 2005, indicating a continued acceleration in business activity. The index has now been positive for two and a half years, with the exception of May 2005. Forty-three percent of respondents reported that conditions had improved since last month, while 14 percent reported that conditions had deteriorated. The new orders index rose slightly, to 30.2, with 45 percent of respondents seeing a rise in orders and 15 percent seeing a decline. The shipments index dipped several points to 18.8, while the unfilled orders index dropped 7 points to 8.1. The delivery time index turned positive, but only slightly, at 4.5. The inventories index dropped below zero, to -5.6, after posting values just above zero for the past two months.

Pricing Pressures Ease Modestly

While still indicating significant pricing pressures, the prices paid index retreated from the record high set in November,



falling over 10 points to 47.2. Last month, 63 percent of respondents reported an increase in prices paid, while 51 percent reported an increase in December. The prices received index was 18.0, close to last month's level, with 25 percent of respondents receiving higher prices and 7 percent receiving lower prices.

Employment indexes were mixed, but lower than in November. The index for number of employees remained positive but fell to 6.6, its lowest level in several months, with 20 percent of respondents reporting increased employment and 13 percent reporting reduced employment. In contrast, the average workweek index fell to near zero.

Expanded Activity Expected to Continue

Future indexes were generally positive but somewhat below November levels. The future general business conditions, new orders, and shipments indexes each retreated slightly, but remained above 40. The future unfilled orders index fell sharply from 19.2 last month to about zero. Future price indexes remained elevated. In contrast to the current index for number of employees, the future index for this variable rose to 33.5, its highest level in more than a year. The capital expenditures index was 33.7.

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 Expect Sizable Increases in Nonwage Costs in 2006

This month's supplementary questions focus on recent and expected changes in the prices firms pay for various input costs, including wages, benefits, insurance, energy, and other commodities. The same set of questions was asked a year ago, in December 2004. The responses to the questions for December 2005 are shown in the table below, followed by the corresponding responses from the December 2004 survey.

In identifying changes in prices paid during 2005, New York State manufacturers, on average, reported price hikes of 3 to 3½ percent for wages, insurance (excluding employee health benefits), and outside services. However, respondents noted significantly larger increases of 6.9 percent for employee benefits and 7.9 percent for non-energy commodities, and an increase of more than 17 percent in energy costs.

Looking ahead to calendar 2006, manufacturers anticipated a further rise of nearly 15 percent in energy prices, and an increase of roughly 7 percent in prices paid for both non-energy commodities and employee benefits [relative to 2005 as a whole, not December 2005]. Prices paid for both (nonmedical) insurance and outside services were expected to rise nearly 5 percent—a modestly steeper increase than that reported for 2005. Wage gains are expected to average 3.6 percent in 2006, up from 3.3 percent in 2005.

The actual price changes reported for 2005 were fairly close to the expectations reported in last December's survey, with the notable exception of energy; the average reported increase for energy was roughly 10 percentage points higher than expected. Prices of non-energy commodities also increased somewhat more than anticipated, whereas the cost of employee benefits rose less than expected (although still fairly substantially).

Responses to Supplementary Questions

December 2005 Survey Results

For each of the following budget categories, please indicate the approximate percent change in prices you paid in 2005 and the expected percent change in its price in 2006:

	<i>Average Reported % Change in 2005</i>	<i>Average Expected % Change in 2006</i>
Wages	3.3	3.6
Employee benefits	6.9	7.1
Insurance (liability, fire, etc.)	3.5	4.9
Outside Services	3.3	4.6
Energy	17.4	14.9
Other commodities	7.9	6.6
All Other	5.4	6.2

December 2004 Survey Results (one year ago)

For each of the following budget categories, please indicate the approximate percent change in prices you paid in 2004 and the expected percent change in its price in 2005:

	<i>Average Reported % Change in 2004</i>	<i>Average Expected % Change in 2005</i>
Wages	3.1	3.7
Employee benefits	9.5	8.4
Insurance (liability, fire, etc.)	5.6	3.9
Outside Services	2.6	2.6
Energy	8.5	7.1
Other commodities	6.4	6.7
All Other	3.3	3.1

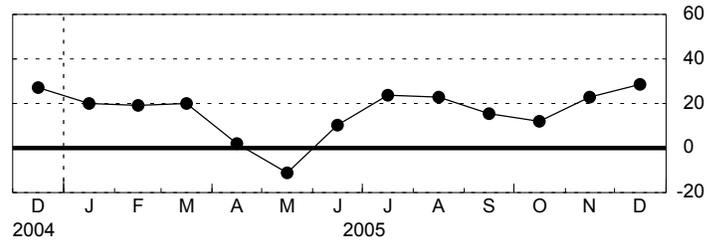
Empire State Manufacturing Survey, December 2005

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	40.45	41.93	17.62	22.82
Dec	42.95	42.83	14.22	28.74

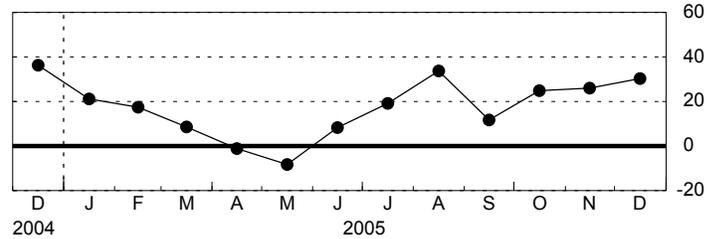
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	44.59	36.75	18.67	25.92
Dec	45.29	39.64	15.07	30.22

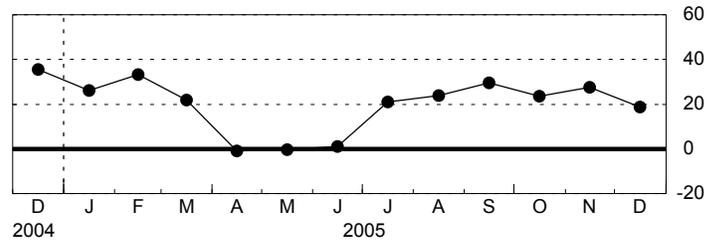
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	46.46	34.68	18.86	27.60
Dec	39.11	40.56	20.33	18.78

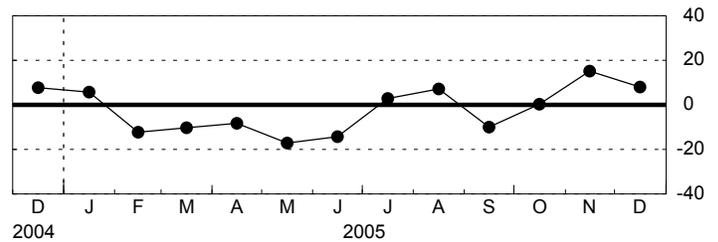
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	27.89	59.29	12.82	15.07
Dec	20.81	66.46	12.74	8.07

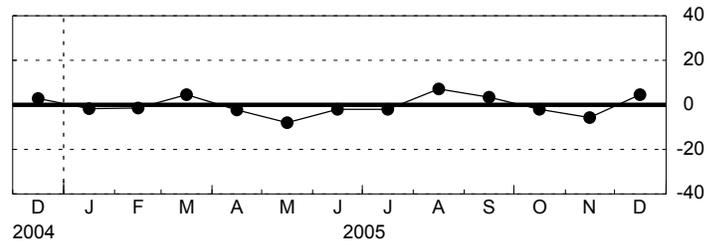
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	8.65	76.92	14.42	-5.77
Dec	13.48	77.53	8.99	4.49

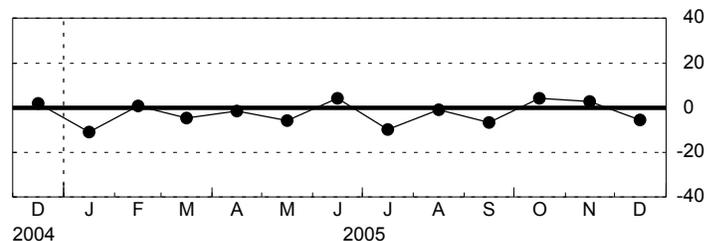
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	23.08	56.73	20.19	2.88
Dec	28.09	38.20	33.71	-5.62

Inventories - Diffusion Index



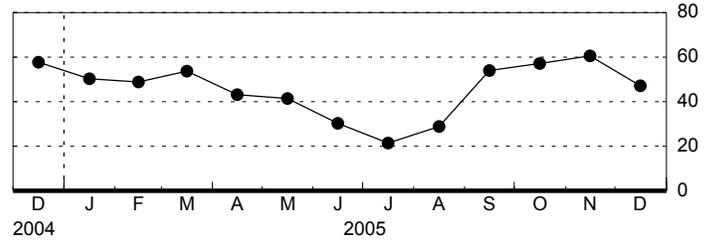
Empire State Manufacturing Survey, December 2005

Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	63.46	33.65	2.88	60.58
Dec	50.56	46.07	3.37	47.19

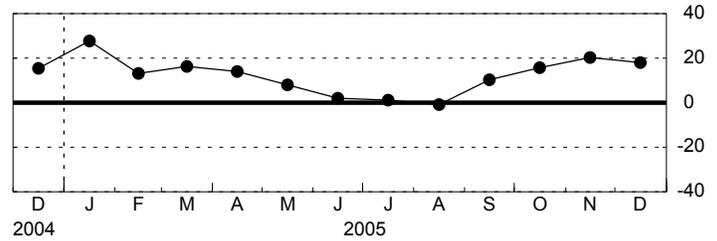
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	26.92	66.35	6.73	20.19
Dec	24.72	68.54	6.74	17.98

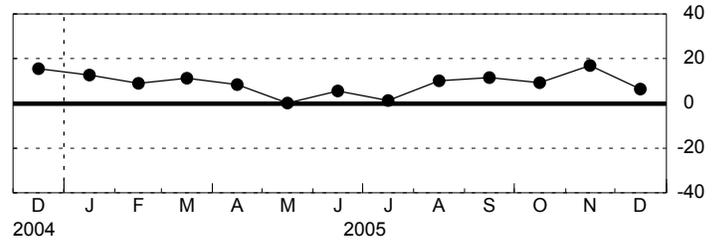
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	31.33	54.25	14.42	16.91
Dec	20.06	66.46	13.48	6.57

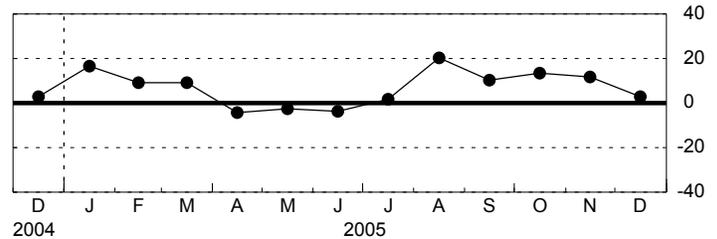
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	25.29	61.25	13.46	11.82
Dec	17.41	67.98	14.61	2.80

Average Employee Workweek - Diffusion Index



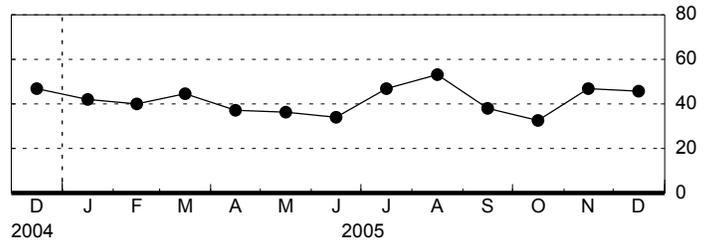
Empire State Manufacturing Survey, December 2005, Expectations Six Months Ahead

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	54.77	37.35	7.87	46.90
Dec	56.19	33.46	10.35	45.84

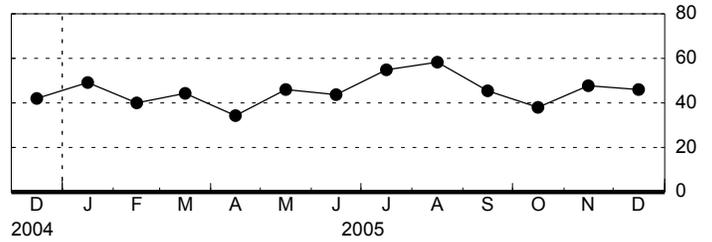
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	56.83	33.87	9.30	47.54
Dec	54.18	37.51	8.30	45.88

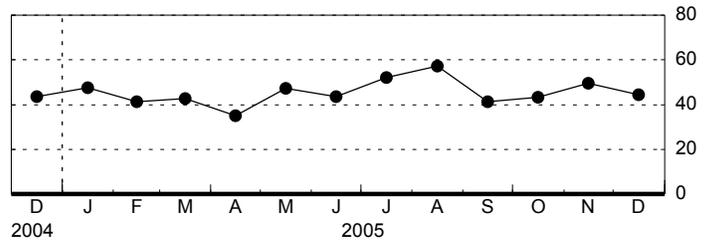
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	57.54	34.62	7.84	49.70
Dec	53.08	38.20	8.73	44.35

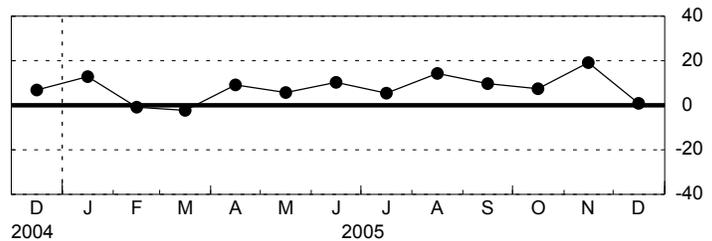
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	24.39	70.40	5.22	19.17
Dec	15.62	69.69	14.69	0.93

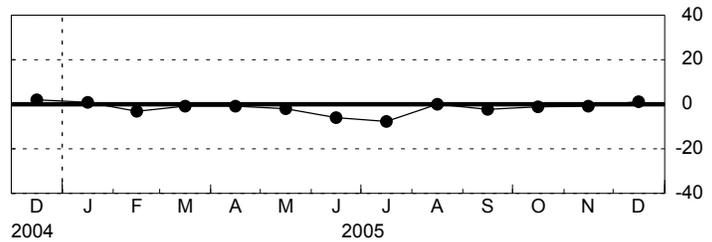
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	10.58	77.88	11.54	-0.96
Dec	10.11	80.90	8.99	1.12

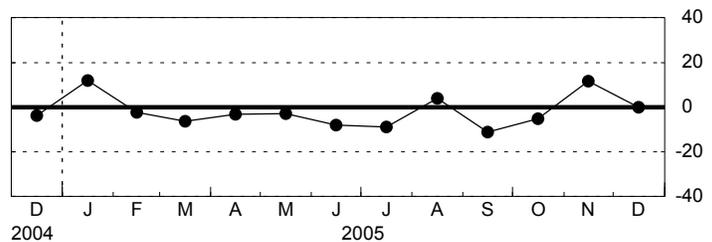
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	30.77	50.00	19.23	11.54
Dec	25.84	48.31	25.84	0.00

Inventories - Diffusion Index



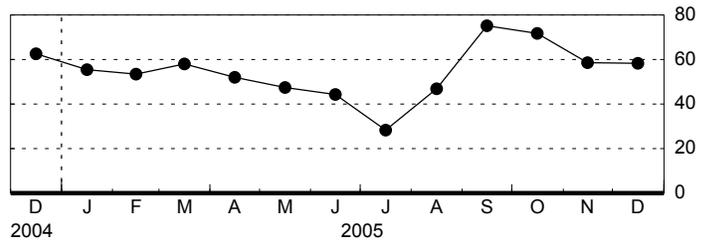
Empire State Manufacturing Survey, December 2005, Expectations Six Months Ahead

Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	63.46	31.73	4.81	58.65
Dec	62.92	32.58	4.49	58.43

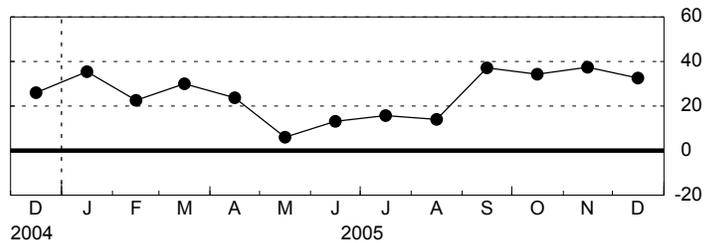
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	45.19	47.12	7.69	37.50
Dec	43.82	44.94	11.24	32.58

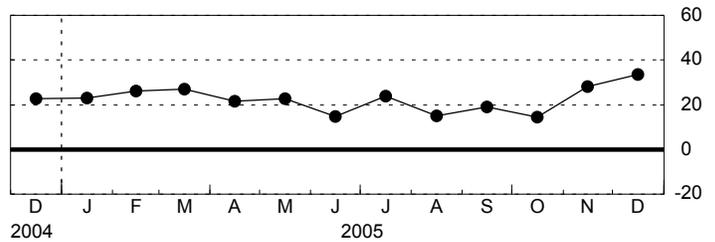
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	38.46	51.15	10.39	28.07
Dec	42.70	48.15	9.16	33.54

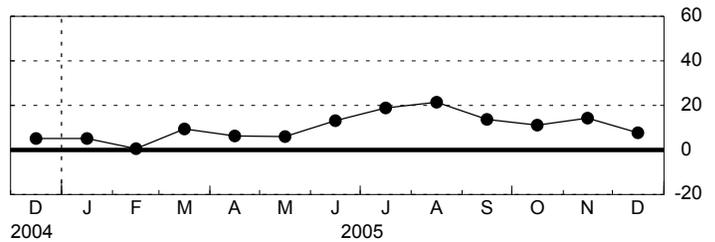
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	22.46	69.43	8.11	14.34
Dec	14.86	77.99	7.16	7.70

Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	43.27	46.15	10.58	32.69
Dec	44.94	43.82	11.24	33.71

Capital Expenditures - Diffusion Index

