

January 2006

Empire State Manufacturing

Survey

For release: January 17, 2006 8:30 a.m.

Summary

The Empire State Manufacturing Survey indicates that conditions for New York manufacturers continued to improve in January, although at a slightly slower pace than in December. The general business conditions index fell several points, but remained positive at 20.1. The new orders and unfilled orders indexes were also positive and close to last month's levels, while the shipments index rose sharply to its highest level in a year. The inventories index was negative and dropped appreciably from its December reading. Price indexes remained elevated, with the prices received index showing a marked rise. Employment indexes were positive and above December levels.

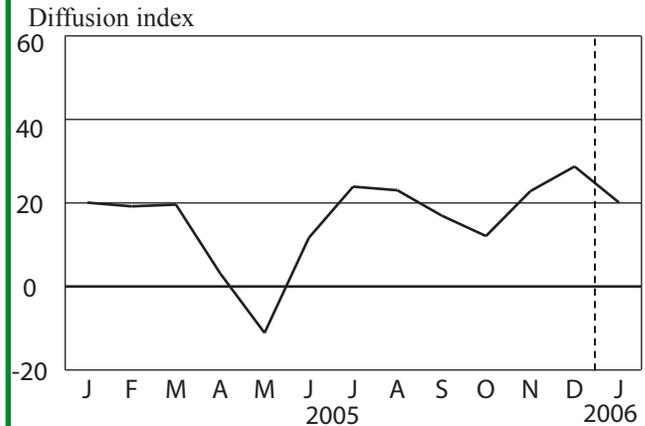
Future indexes suggested that respondents are expecting activity to expand further and prices and employment to climb higher over the next six months. A new future index, reported for the first time this month, indicated that firms are also expecting technology expenditures to rise over the six months ahead.

In a series of supplementary questions, respondents were asked about the likelihood of their relocating operations outside the state. Roughly 40 percent said there was no chance they would relocate some of their operations over the next five years, while 18 percent indicated a probability of more than one-half. Firms were also asked which factors disposed them to keep their business in the state. The most widely cited factors were a heavy investment in fixed, location-specific plant and equipment, top management's preference for living in the state, and workers' preference for living in the area.

Business Activity Expands

Although the general business conditions index fell several points from its December level, it indicated a continued expansion in manufacturing activity in New York State in January. The index fell to 20.1, with 42 percent of respondents reporting that conditions had improved and 22 percent reporting that conditions had deteriorated. The new orders index, at 27.2, was essentially unchanged from December; 42 percent of respondents saw a rise in orders while 15 percent saw a decline. The shipments index rose sharply, from 18.7 to 32.0, with the percentage of respondents reporting higher shipments increasing from 38 percent to 46 percent. The unfilled orders and delivery time indexes remained just above zero. The inventories index dropped markedly, from -4.4 to -12.3, its lowest level in more than a year.

General Business Conditions



Price Indexes Remain Elevated

The prices paid index, after dropping in December from its record high in November, remained elevated and, at 46.6, was roughly equal to last month's level. Almost 50 percent of respondents reported paying higher prices, while only 1 percent reported lower prices. The prices received index climbed nearly 10 points to 27.4, its highest level in a year. Roughly one-third of respondents said that they had charged higher prices, while 7 percent had charged lower prices. Employment indexes indicated rising employment. The index for number of employees advanced from 5.0 to 11.3, with nearly one-quarter of respondents increasing employment and 12 percent reducing employment. The average workweek index rose similarly, from 4.8 to 11.7.

Future Indexes Convey Continued Optimism

Future indexes drifted up slightly from last month and conveyed a favorable outlook for the six months ahead. The indexes for future general business conditions, new orders, and shipments all reached levels close to or just above 50. Future price indexes rose slightly and indicated an expectation that both prices paid and prices received would continue to rise. Future employment indexes were positive and above their December readings. The capital expenditures index remained level at 31.5, while the new index for technology spending fell slightly, to 20.6.

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.

Most New York Manufacturers Plan to Stay in the State

The supplementary questions in the January survey focused on the New York State location of respondents' firms (see table). Asked how the size of their workforce in New York State had changed over the past five years, respondents gave a split reply: 43 percent said it had increased, while 40 percent said it had decreased. The remaining 17 percent reported that it had remained about the same.

When asked about the probability that they would relocate some of their operations outside the state over the next five years, 40 percent of manufacturers assigned zero probability, while close to 18 percent indicated a probability of more than 50 percent; the average probability was 27 percent. Manufacturers were also asked about the probability of relocating all their

operations. In reply, two-thirds of the respondents assigned a zero probability, while just 4 percent indicated a probability of more than 50 percent. The average firm reported a 9 percent probability of relocating all operations outside the state.

Finally, manufacturers were asked to evaluate the extent to which various factors disposed them to keep their business establishment in the state. The highest rated factor was a heavy investment in fixed, location-specific capital—plant and equipment too expensive to move—followed by top management's preference for living in the state. Workers' preference for living in the area was not far behind. The uncertainty and risks inherent in moving to a new location also ranked high. The complete ranking is shown in the table.

January 2006 Survey Results

Responses to Supplementary Questions

1) How does the size of your workforce in the state compare with that of 5 years ago?

	<u>Percentage of Respondents</u>
About the same	17.8
Larger than 5 years ago	42.6
Smaller than 5 years ago	39.6
Did not have a presence in the state 5 years ago	0.0

2) What is the probability that you would relocate some or all of your operations out of the state in the next 5 years?

	<u>Some Operations</u>	<u>All Operations</u>
Percentage of respondents saying:		
Zero probability	39.6	67.9
1-10% probability	9.9	14.3
11-25% probability	16.5	7.1
26-50% probability	16.5	7.1
Greater than 50% probability	17.6	3.6
Average probability of relocating operations	27.0	9.0

3) To what extent is each of the following contributing to keeping your establishment in the state?

	<u>Average Rating*</u>
Heavily invested in fixed (location-specific) capital	70.5
Preference for living here (management)	62.8
Uncertainty / risk about other locations	50.8
Preference for living here (workers)	49.0
Strong business networks	46.7
Availability of labor	46.5
Other factors / general inertia	45.4
Proximity to markets / customer base	38.6
Access to transportation of goods	37.0
Business amenities / public services	31.6
Cost of Labor	30.8
Tax credits / subsidies	26.8
Availability of public transportation	22.2

* Average rating of factor on a scale of 1 (not a positive factor) to 100 (major positive factor)

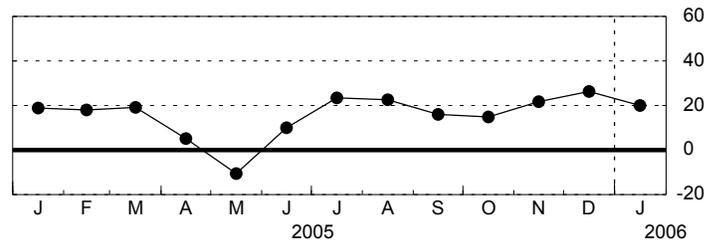
Empire State Manufacturing Survey, January 2006

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	41.14	43.99	14.86	26.28
Jan	41.79	36.55	21.66	20.12

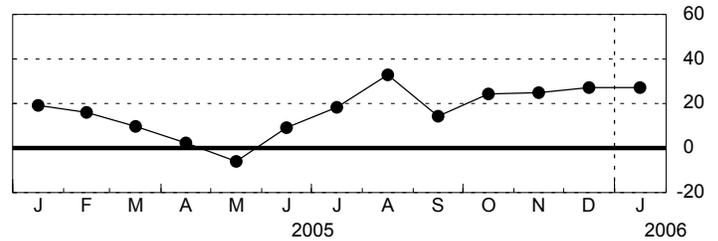
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	42.56	42.08	15.36	27.20
Jan	42.23	42.73	15.04	27.19

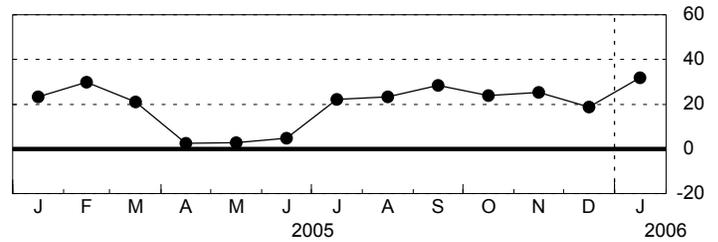
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	37.88	42.92	19.20	18.68
Jan	46.24	39.51	14.25	31.99

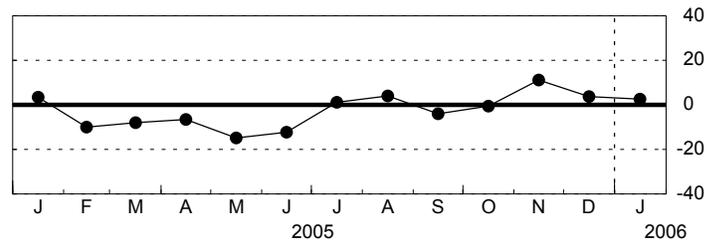
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	19.01	65.72	15.27	3.75
Jan	20.71	61.29	18.00	2.70

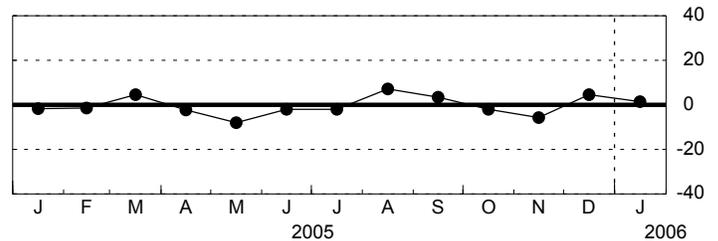
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	13.33	77.78	8.89	4.44
Jan	10.96	79.45	9.59	1.37

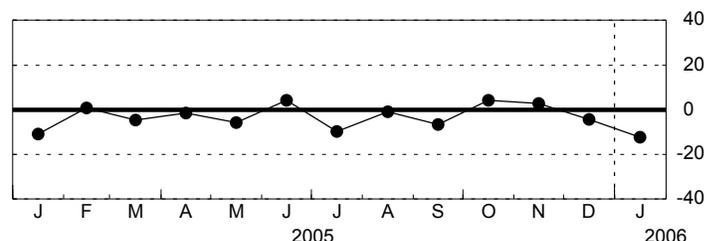
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	28.89	37.78	33.33	-4.44
Jan	21.92	43.84	34.25	-12.33

Inventories - Diffusion Index

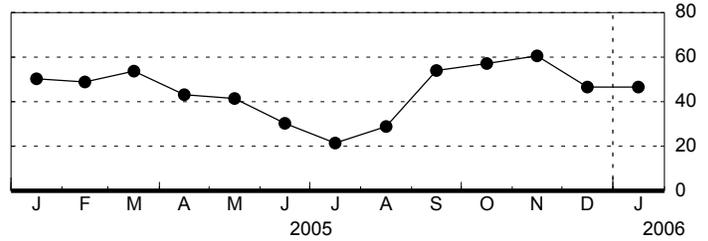


Empire State Manufacturing Survey, January 2006 Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	50.00	46.67	3.33	46.67
Jan	47.95	50.68	1.37	46.58

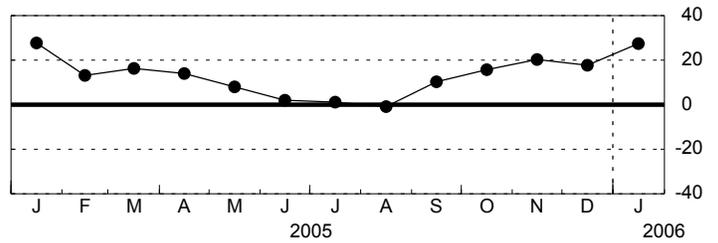
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	24.44	68.89	6.67	17.78
Jan	34.25	58.90	6.85	27.40

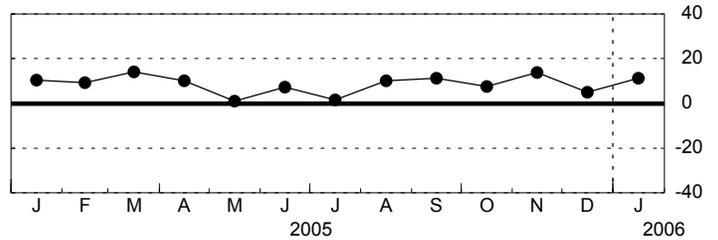
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	18.35	68.32	13.33	5.01
Jan	23.62	64.05	12.33	11.29

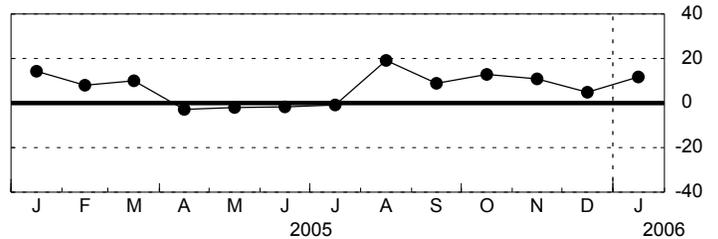
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	19.23	66.32	14.44	4.79
Jan	28.15	55.41	16.44	11.71

Average Employee Workweek - Diffusion Index

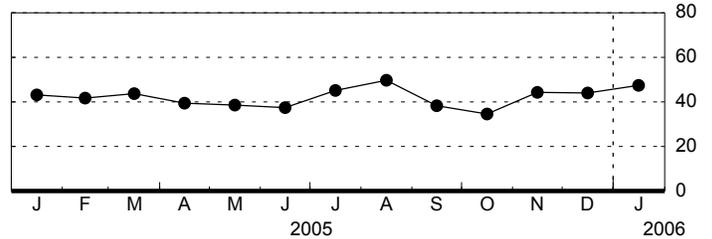


Empire State Manufacturing Survey, January 2006, Expectations Six Months Ahead Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	54.65	34.75	10.60	44.05
Jan	52.30	42.95	4.74	47.56

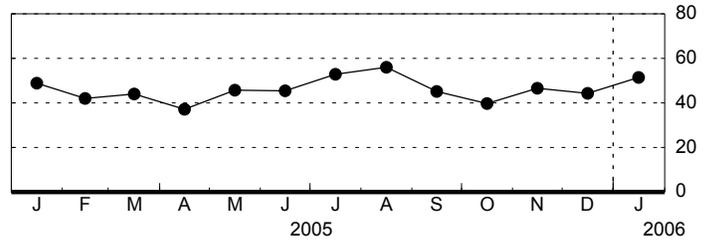
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	53.39	37.46	9.15	44.24
Jan	53.72	43.84	2.44	51.29

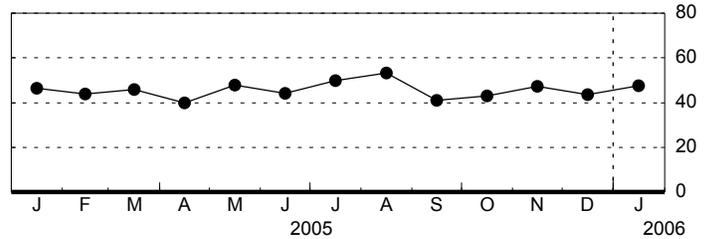
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	51.85	39.80	8.35	43.50
Jan	54.32	38.95	6.73	47.59

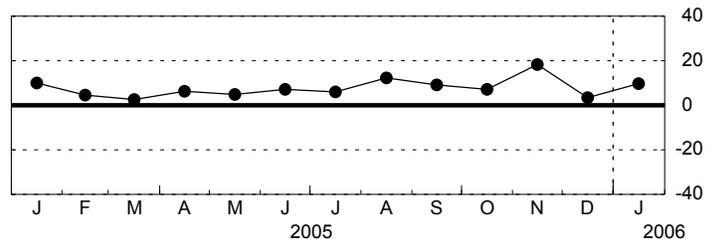
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	17.27	68.93	13.80	3.46
Jan	19.97	69.92	10.10	9.87

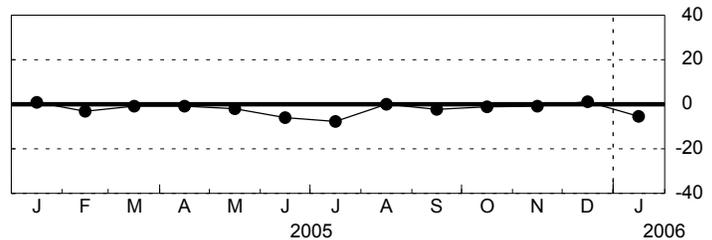
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	10.00	81.11	8.89	1.11
Jan	10.96	72.60	16.44	-5.48

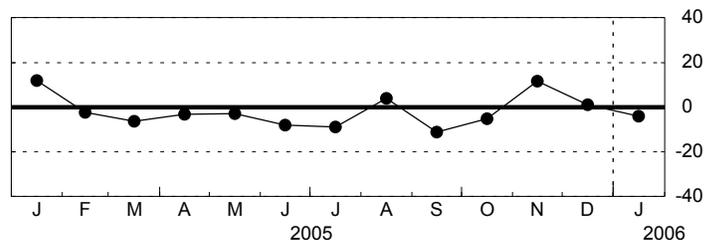
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	26.67	47.78	25.56	1.11
Jan	26.03	43.84	30.14	-4.11

Inventories - Diffusion Index

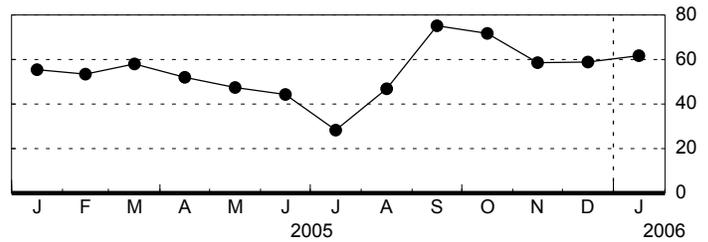


Empire State Manufacturing Survey, January 2006, Expectations Six Months Ahead Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	63.33	32.22	4.44	58.89
Jan	63.01	35.62	1.37	61.64

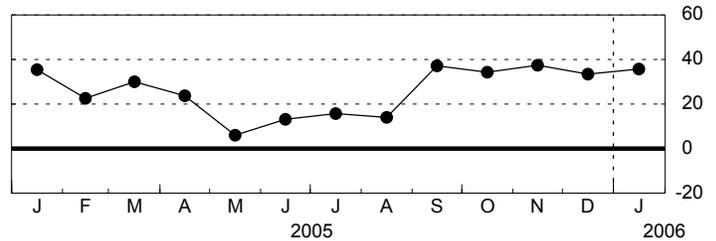
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	44.44	44.44	11.11	33.33
Jan	42.47	50.68	6.85	35.62

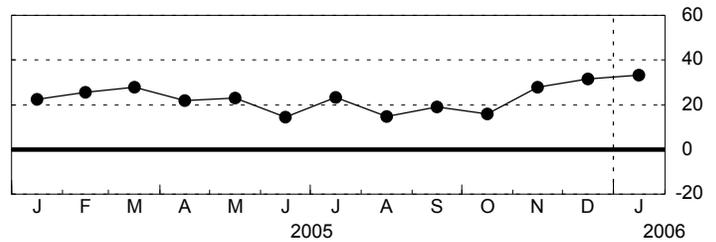
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	42.22	47.00	10.77	31.45
Jan	39.73	53.86	6.41	33.31

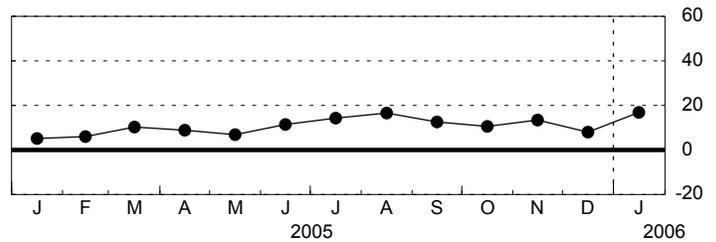
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	16.36	75.26	8.38	7.99
Jan	24.02	68.99	7.00	17.02

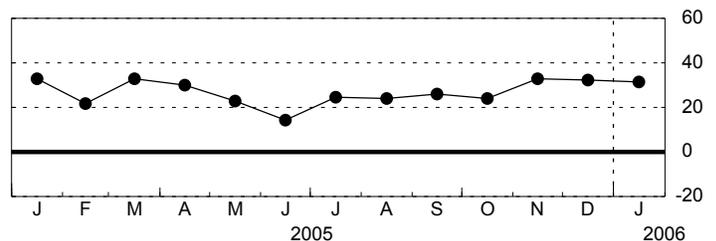
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	44.44	43.33	12.22	32.22
Jan	42.47	46.58	10.96	31.51

Capital Expenditures - Diffusion Index



Technology Spendings

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Dec	35.56	56.67	7.78	27.78
Jan	30.14	60.27	9.59	20.55

Technology Spendings - Diffusion Index

