

February 2007

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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 February. The general business conditions index rebounded from January's sharp decline, rising to 24.4. The new orders and shipments indexes also increased significantly. The unfilled orders index rose out of negative territory. The prices paid and prices received indexes eased, while employment indexes moved up. Future indexes also improved, with a noteworthy upsurge in the future unfilled orders index.

In a series of supplementary questions identical to those posed in the February 2006 survey, manufacturers were asked to assess foreign sales and exchange rates. In the current survey, nearly 55 percent of firms reported that, over the past year, the dollar had weakened against the currencies that mattered most for their business, while just 8 percent reported that it had strengthened. Asked which currencies had the largest effect on their overall sales, respondents ranked the Chinese yuan highest, followed closely by the Canadian dollar and the euro. Respondents indicated that recent movements in the dollar have had a positive effect on foreign sales but a negative effect on most other aspects of their business, including their profits. As in last year's survey, more than a third of manufacturers said they planned to devote increased resources to marketing abroad in 2007. These firms indicated, however, that they would focus their efforts more on Europe than on Asia, the market most widely cited in the February 2006 survey.

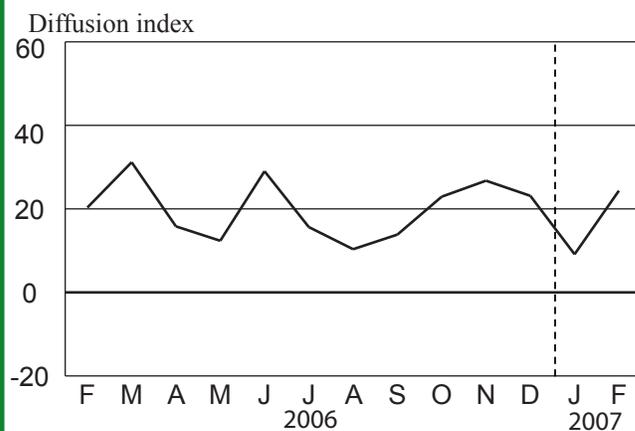
General Business Conditions Index Rebounds

The general business conditions index bounced back sharply after a steep fall in January, rising from 9.1 to 24.4. Forty-one percent of respondents reported that conditions had improved in February, while 17 percent reported that conditions had worsened. The new orders index rose 9 points, to 18.9, and the shipments index posted a similar increase, reaching 27.1. After dropping well below zero in December and January, the unfilled orders index returned to zero. The delivery time index remained slightly negative, at -3.2, and the inventories index rose from -19.2 to -7.5.

Price Indexes Ease

After rising last month, the indexes for both prices paid and prices received fell in February. The prices paid index dropped 8 points, to 26.9; 31 percent of respondents—compared with 37 percent last month—reported paying higher prices. The prices

General Business Conditions



received index fell several points to 12.9. Employment indexes improved. On the heels of a decline in December and January, the index for number of employees rose 6 points to 12.7, with nearly a quarter of respondents increasing employment and 11 percent reducing employment. After dipping below zero last month, the average workweek index rose to 5.4.

Expectations for Business Conditions Improve

The six-month outlook turned more favorable in February. The future general business conditions index rose to 38.5, with just over half of respondents expecting conditions to improve further over the next six months. The future shipments and unfilled orders indexes rose markedly, and the future inventories index remained just above zero. The future prices paid index fell several points, while the future prices received index rose. Future employment indexes were positive and little changed from last month. The capital expenditures and technology spending indexes also remained near January levels.

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.

Weaker Dollar Adversely Affects Bottom Line

In the February survey, manufacturers were asked a series of supplementary questions on foreign sales and the effects of shifts in exchange rates on various aspects of their business. The table below shows the results of this survey alongside those of a similar survey conducted in February 2006.

Roughly two-thirds of firms indicated that at least some of their 2006 revenues had come from exports. Asked how the dollar's value had changed relative to currencies that matter most for their business, more than 55 percent of respondents said that it had weakened while just 7 percent reported that it had strengthened. When asked how extensively their overall sales (both foreign and domestic) would be affected by a significant change in specific currency exchange rates, respondents indicated that a change in the dollar value of the Chinese yuan would have the

greatest impact, followed closely by the Canadian dollar and the euro. In last year's survey, the euro was seen as having the largest effect.

On the issue of how shifting exchange rates had affected their business, 45 percent of respondents cited an unfavorable effect on their input prices (that is, higher input prices), while only 7 percent said the effect on input prices had been positive. Interestingly, effects on the prices manufacturers are able to charge were also seen as unfavorable, on balance, though by a small margin—even among those reporting weakening in the dollar. However, the effect on foreign sales was generally considered to be positive, especially among those firms reporting a weakening dollar. Overall, more respondents indicated that the net effect on profits had been unfavorable than favorable.

February 2007 Survey Results
Responses to Supplementary Questions

1) Approximately what percentage of your overall revenues came from foreign customers in 2006 (2005)?

<i>Percentage of Revenues</i>	<i>Percentage of Firms</i>	
	<i>Feb. 2007</i>	<i>Feb. 2006</i>
Zero	23	20
1 to 4	14	18
5 to 9	21	19
10 to 19	21	25
20 or more	21	20
Average percentage of revenues	12.2	12.4

2) How favorable or unfavorable an effect has the change in dollar exchange rates over the past year had on each of the following components of your business?

	<i>Feb. 2007</i>		<i>Feb. 2006</i>	
	<i>Percentage of Firms Citing</i>		<i>Percentage of Firms Citing</i>	
	<i>Unfavorable Effect</i>	<i>Favorable Effect</i>	<i>Unfavorable Effect</i>	<i>Favorable Effect</i>
Prices you pay for materials/inputs	44.9	6.7	42.0	7.0
Prices you are able to charge	19.1	14.6	19.4	9.2
Your sales to foreign customers	7.0	26.7	12.4	19.6
Your domestic sales	15.9	2.3	9.2	5.1
Overall net effect on your profits	31.8	20.5	22.9	10.4

3) Compared with the currencies that most affect your business, would you say that the dollar has gotten stronger, weaker, or stayed about the same over the past year?

	<i>Feb. 2007</i>	<i>Feb. 2006</i>
Weaker	6.9	3.1
Somewhat weaker	47.1	32.3
Little or no change	37.9	44.8
Somewhat stronger	8.0	18.8
Stronger	0.0	1.0

4) To what extent would a significant change in exchange rates against each of these currencies affect your overall sales (domestic and foreign combined), if at all?

	<i>No Effect</i>	<i>Moderate Effect</i>	<i>Large Effect</i>
Canadian dollar	33.7	52.8	13.5
Euro	40.9	46.6	12.5
Japanese yen	65.9	28.4	5.7
Chinese yuan	45.5	33.0	21.6
Mexican peso	58.0	31.8	10.2

5) Do you plan to devote more or fewer resources to selling/marketing in each of these areas of the world in 2007 than you did in 2006?

	<i>Fewer</i>	<i>Same</i>	<i>More</i>
Canada	6.0	67.9	26.2
Latin America	8.4	75.9	15.7
Europe	6.0	60.2	33.7
Asia	7.2	63.9	28.9

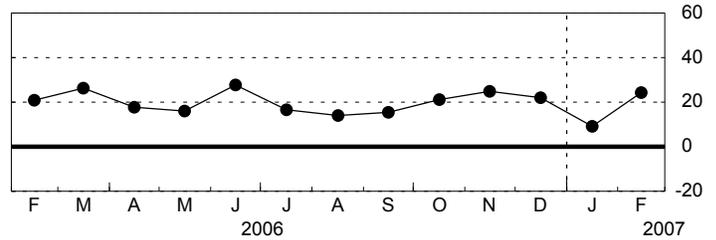
Empire State Manufacturing Survey, February 2007

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	34.45	40.24	25.31	9.13
Feb	41.32	41.71	16.97	24.35

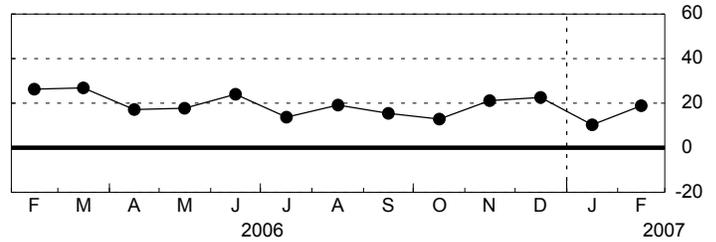
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	37.84	34.59	27.58	10.26
Feb	38.70	41.54	19.77	18.93

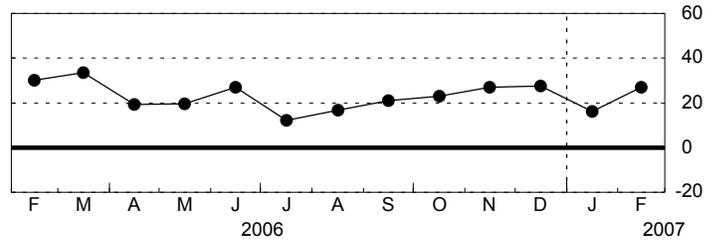
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	40.45	35.22	24.34	16.11
Feb	44.77	37.53	17.70	27.07

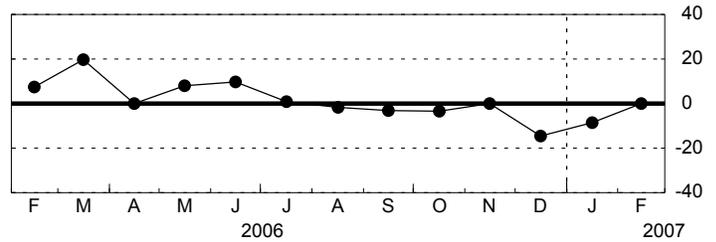
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	14.89	61.70	23.40	-8.51
Feb	17.20	65.59	17.20	0.00

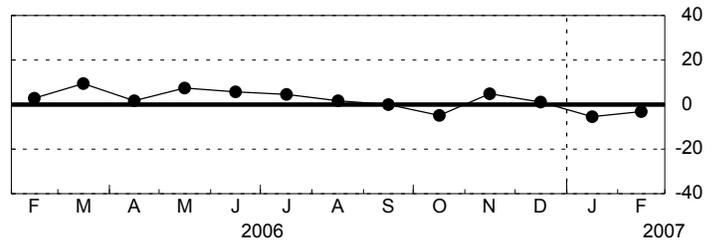
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	7.45	79.79	12.77	-5.32
Feb	7.53	81.72	10.75	-3.23

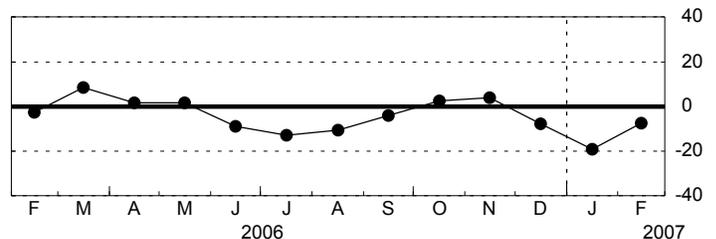
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	18.09	44.68	37.23	-19.15
Feb	20.43	51.61	27.96	-7.53

Inventories - Diffusion Index



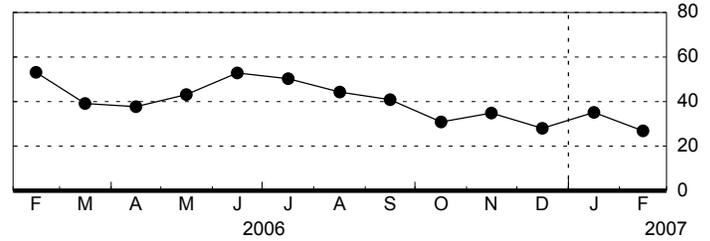
Empire State Manufacturing Survey, February 2007

Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	37.23	60.64	2.13	35.11
Feb	31.18	64.52	4.30	26.88

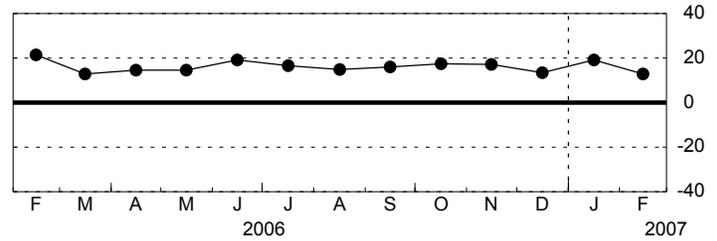
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	24.47	70.21	5.32	19.15
Feb	17.20	78.49	4.30	12.90

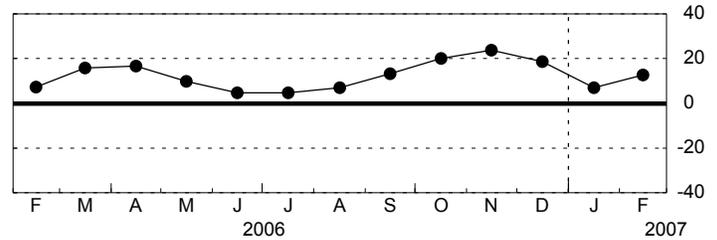
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	21.81	63.30	14.89	6.91
Feb	23.45	65.80	10.75	12.70

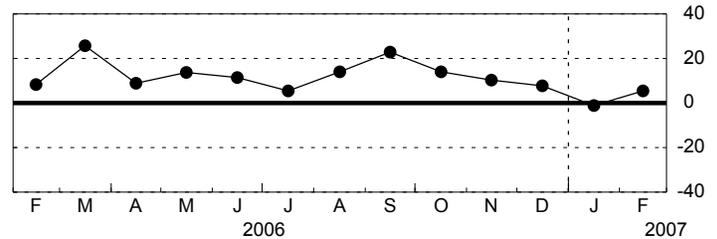
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	18.09	62.77	19.15	-1.06
Feb	19.35	66.67	13.98	5.38

Average Employee Workweek - Diffusion Index

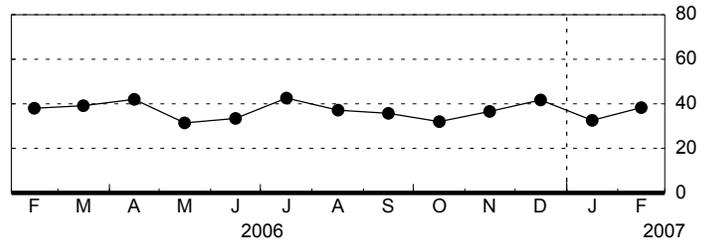


Empire State Manufacturing Survey, February 2007, Expectations Six Months Ahead Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	54.17	24.19	21.64	32.54
Feb	51.60	35.28	13.11	38.49

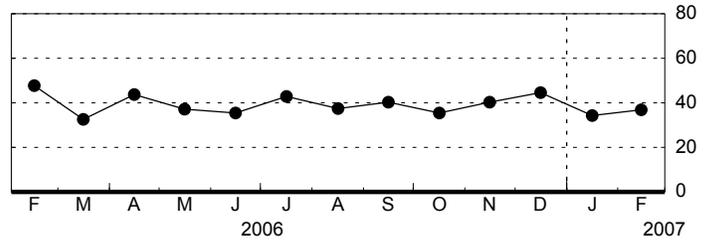
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	57.95	18.24	23.81	34.14
Feb	47.69	41.56	10.75	36.95

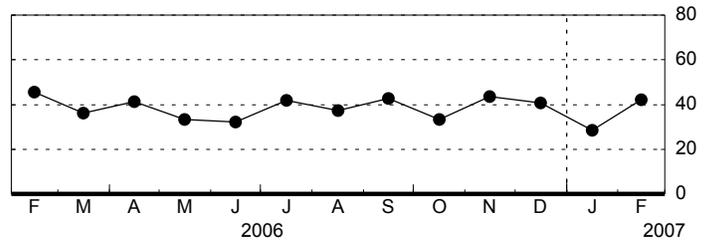
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	53.01	22.46	24.54	28.47
Feb	51.22	39.72	9.06	42.16

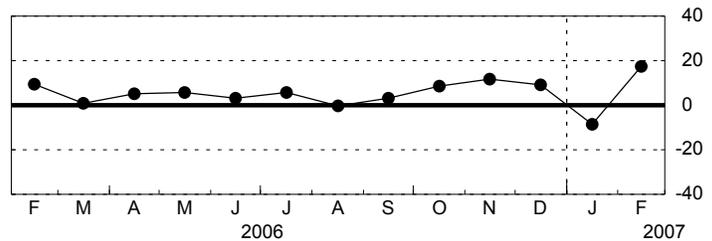
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	17.02	57.46	25.52	-8.50
Feb	22.58	72.36	5.06	17.52

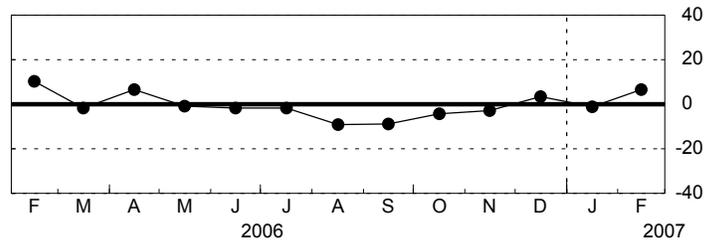
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	9.57	79.79	10.64	-1.06
Feb	11.83	82.80	5.38	6.45

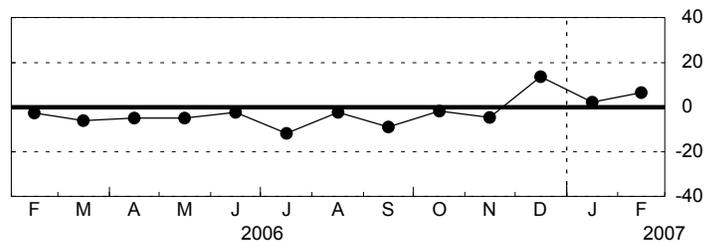
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	26.60	48.94	24.47	2.13
Feb	26.88	52.69	20.43	6.45

Inventories - Diffusion Index

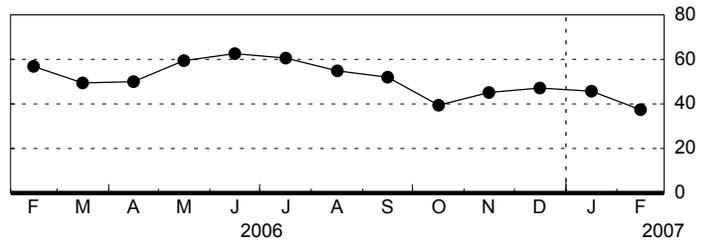


Empire State Manufacturing Survey, February 2007, Expectations Six Months Ahead Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	47.87	50.00	2.13	45.74
Feb	41.94	53.76	4.30	37.63

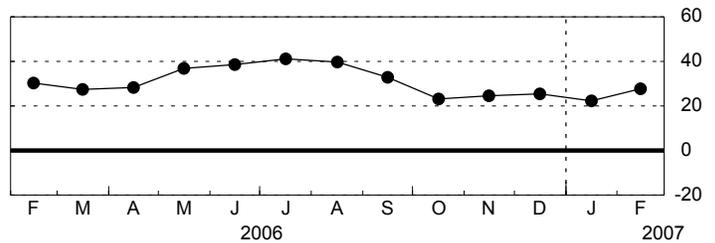
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	28.78	64.84	6.38	22.39
Feb	29.77	68.08	2.15	27.62

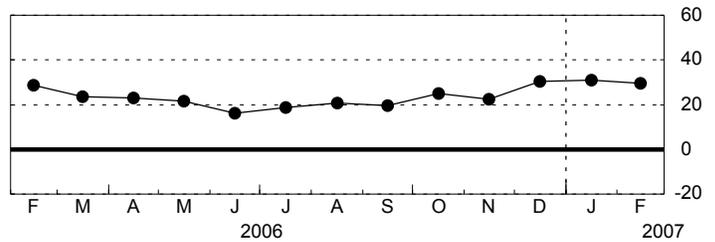
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	40.43	50.27	9.30	31.12
Feb	37.63	54.27	8.10	29.54

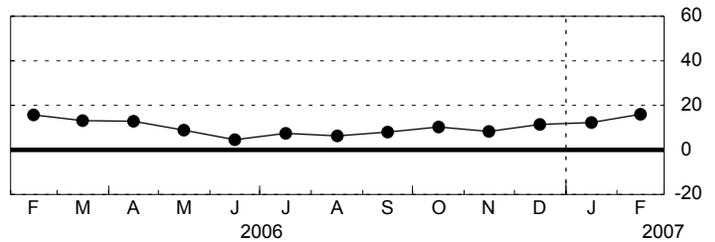
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	21.97	68.46	9.57	12.39
Feb	21.40	73.23	5.38	16.02

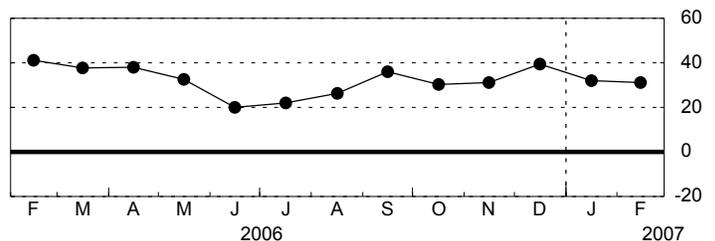
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	43.62	44.68	11.70	31.91
Feb	37.63	55.91	6.45	31.18

Capital Expenditures - Diffusion Index



Technology Spending

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	29.79	62.77	7.45	22.34
Feb	26.88	69.89	3.23	23.66

Technology Spending - Diffusion Index

