

July 2006

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

Empire State Manufacturing

Survey



Summary

The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers improved in July but at slower pace than in June. The general business conditions index was positive, but fell from 29.0 to 15.6. Similarly, indexes for new orders and shipments, while positive, dropped sharply from June levels. The inventories index was negative for a second consecutive month. Price indexes remained high and close to last month's levels, and future price indexes were also elevated. Employment indexes were modestly positive. Future indexes rose from June levels, indicating increased optimism about conditions six months ahead.

In a series of supplementary questions, manufacturers were asked to estimate the change in their sales, investment, and employment levels between the first half of 2005 and the first half of 2006 and the change they expected to see in these same variables between calendar years 2005 and 2006 (see table on next page). The responses indicated a median sales increase of 5 percent for the first half of the year and 7 percent for the full year. The median change in employment was zero percent for the first half of the year and an increase of 2 percent for the full year. In response to a separate question on recent changes in production plans for the second half of 2006, nearly 50 percent of the manufacturers surveyed reported that they had adjusted their production plans upward, while roughly 20 percent had scaled back their plans. More than 70 percent of the respondents said that increases in energy and commodity costs had had no adverse effect on their production plans.

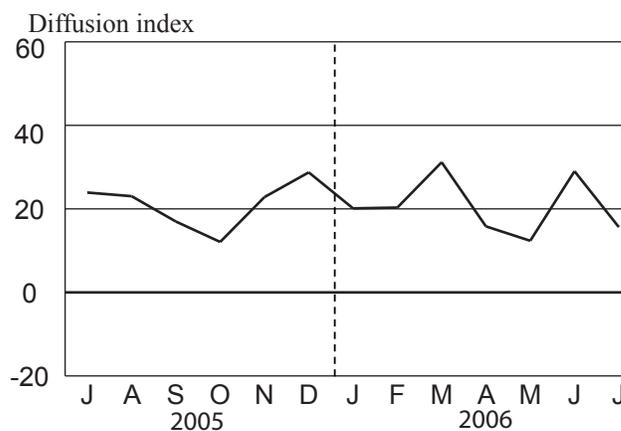
Business Activity Expands at a Slower Pace

After a sharp increase in June, the general business conditions index fell back toward its May level, dropping 13 points to 15.6. Thirty-three percent of respondents—down from 44 percent in June—reported that conditions had improved, while 17 percent reported that conditions had deteriorated. The new orders index dropped sharply, from 25.8 to 10.3, its lowest level in more than a year. The shipments index posted a similar decline, falling from 30.3 to 11.3. The unfilled orders index slipped to 3.0. The delivery time index held relatively steady at 4.7, while the inventories index, below zero for a second consecutive month, declined to -12.2.

Price Pressures Continue

The indexes for both prices paid and prices received remained elevated. The prices paid index dropped slightly, from 52.9 last month to 50.5 in July. Roughly half the respondents

General Business Conditions



reported paying higher prices, while none reported paying lower prices. The prices received index retreated a few points but, at 15.9, remained near its average level of the past several months. Employment indexes indicated a slight expansion in employment. The number of employees index was modestly positive at 6.5, with 24 percent of respondents—compared with 20 percent in June—reporting increased employment and 18 percent reporting reduced employment, up from 15 percent last month. The average workweek index fell slightly, to 8.6.

Outlook Remains Favorable

Future indexes generally rose in July, and suggested that manufacturers expect business activity to expand further over the next six months. The future general business conditions index rose for a second consecutive month to reach 44.8, with 57 percent of respondents expecting conditions to improve over the next six months and 12 percent expecting conditions to worsen. Future indexes for new orders and shipments climbed to similar levels. The future inventories index dipped to -11.2. Future prices indexes remained high, with the future prices received index increasing for a third consecutive month. Future employment indexes were positive. The capital expenditures index, after falling sharply last month, remained near June's level at 21.5. The technology spending index fell slightly, to 14.0.

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 Strong Performance in the Year's Second Half

In a series of supplementary questions, manufacturers were asked to estimate how much their total sales, investment in equipment and structures, and employment levels had changed between the first half of 2005 and the first half of 2006; they were also asked to estimate the changes they expected in these same measures of performance for the full calendar year (see table). For total sales, the median increase reported for the first half of the year was 5 percent, while the median increase expected for the calendar year was 7 percent. For investment, the median expectation was for a 5 percent increase from 2005 to 2006, even though the median firm reported no change in the first half of the year. Similarly, no change in employment levels was reported between the first half of 2005 and the first half of 2006, but the median increase

expected for the full year was 2 percent. This last finding would seem to suggest at least some pickup in hiring activity in the months ahead.

Respondents were also asked if they had recently modified their production plans for the second half of 2006. Nearly half of those surveyed indicated that they had boosted production plans, while slightly over 20 percent reported that they had reduced them. Finally, when asked about the extent to which increased energy and other commodity costs had caused them to scale back production plans, more than 70 percent said "not at all," while fewer than 5 percent said "substantially."

July 2006 Survey Results Responses to Supplementary Questions

1) Please estimate the percentage change in your firm's sales, investment, and employment levels from 2005 to 2006—both for the first half of the year and what you expect for the full year:

	Median Percentage Change 2006H1 vs. 2005H1	Median Expected Percentage Change 2006 vs. 2005
Total sales	5.0	7.0
Investment in equipment and structures	0.0	5.0
Employment level	0.0	2.0

2) In the past several months, to what extent have you modified your production plans for the second half of 2006?

	Percentage of Respondents
Reduced substantially	1.0
Reduced somewhat	19.4
No change	32.7
Increased somewhat	40.8
Increased substantially	6.1

3) To what extent have increases in the costs of energy and other commodities caused you to scale back your production plans for the second half of 2006?

	Percentage of Respondents
Not at all	70.7
Somewhat	25.3
Substantially	4.0

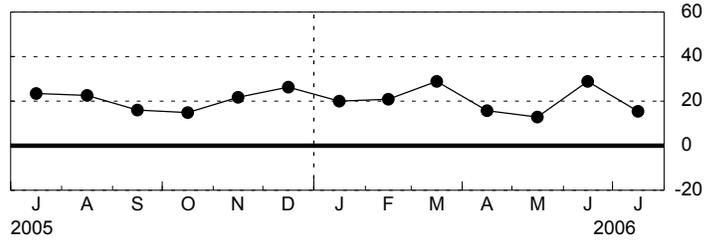
Empire State Manufacturing Survey, July 2006

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	43.74	41.52	14.74	29.01
Jul	32.70	50.24	17.06	15.64

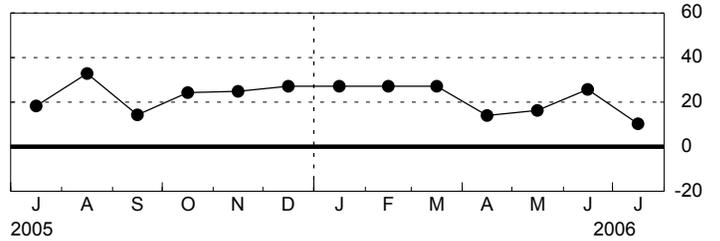
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	43.33	39.16	17.52	25.81
Jul	30.83	48.63	20.54	10.29

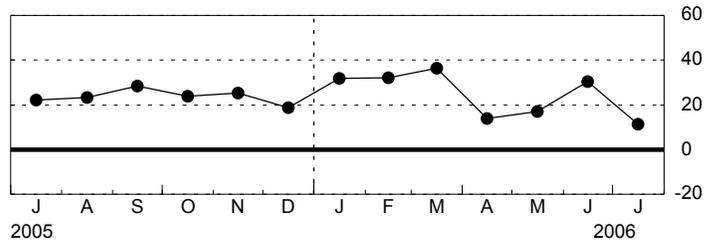
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	45.89	38.55	15.57	30.32
Jul	26.79	57.71	15.49	11.30

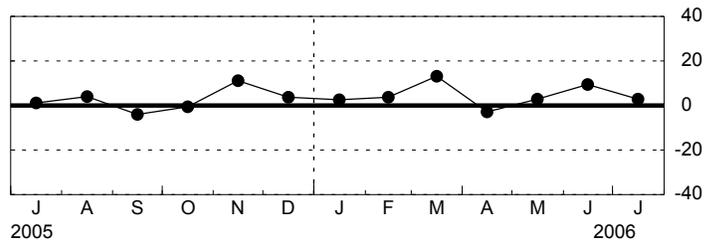
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	20.73	67.98	11.29	9.44
Jul	18.42	66.20	15.38	3.04

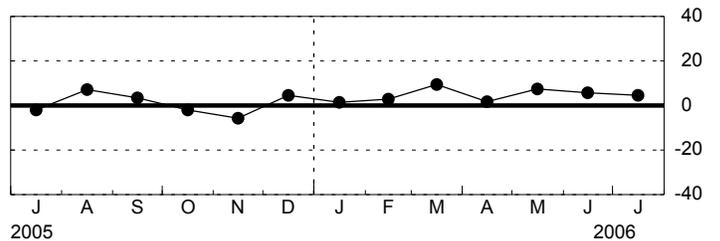
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	13.22	79.34	7.44	5.79
Jul	10.28	84.11	5.61	4.67

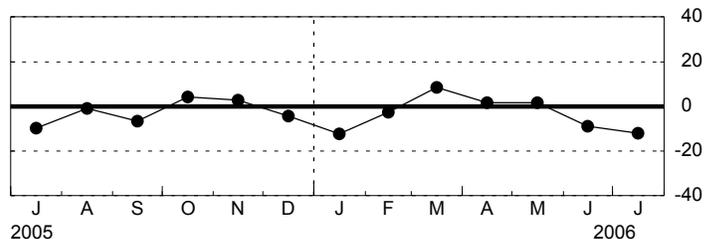
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	17.36	56.20	26.45	-9.09
Jul	14.95	57.94	27.10	-12.15

Inventories - Diffusion Index



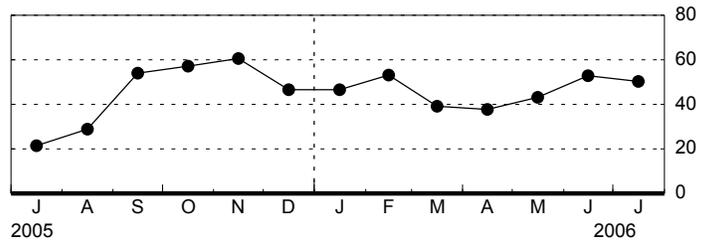
Empire State Manufacturing Survey, July 2006

Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	54.55	43.80	1.65	52.89
Jul	50.47	49.53	0.00	50.47

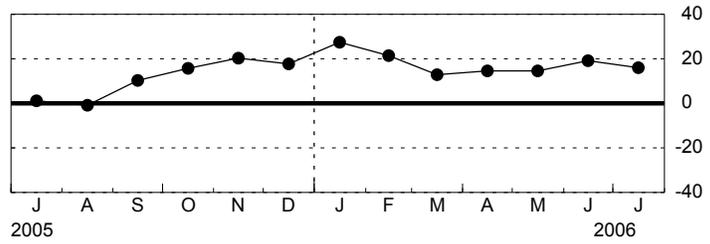
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	24.79	69.42	5.79	19.01
Jul	23.36	69.16	7.48	15.89

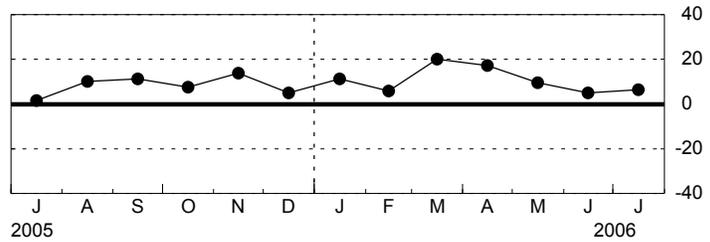
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	20.00	65.13	14.88	5.12
Jul	24.25	57.99	17.76	6.49

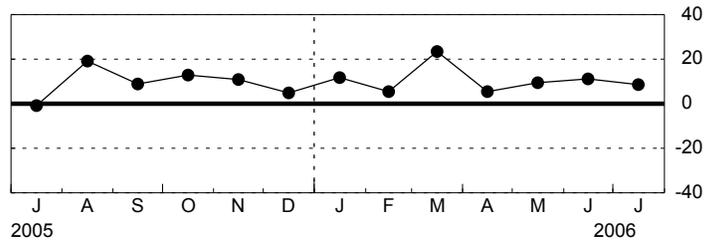
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	21.20	68.89	9.92	11.28
Jul	22.64	63.34	14.02	8.62

Average Employee Workweek - Diffusion Index

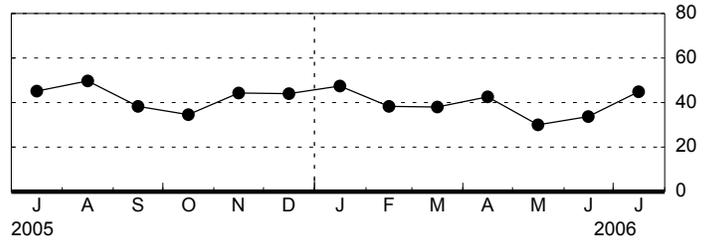


Empire State Manufacturing Survey, July 2006, Expectations Six Months Ahead Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	46.61	40.44	12.95	33.66
Jul	56.64	31.54	11.82	44.83

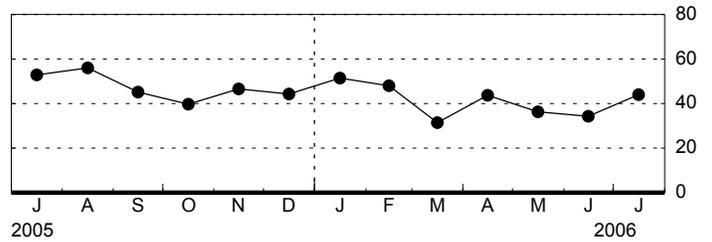
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	51.96	30.23	17.82	34.14
Jul	54.56	34.84	10.60	43.96

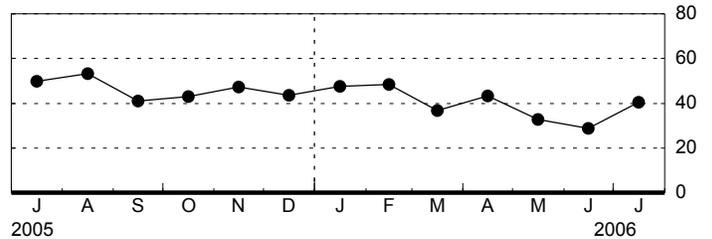
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	46.78	35.28	17.94	28.84
Jul	50.43	39.69	9.89	40.54

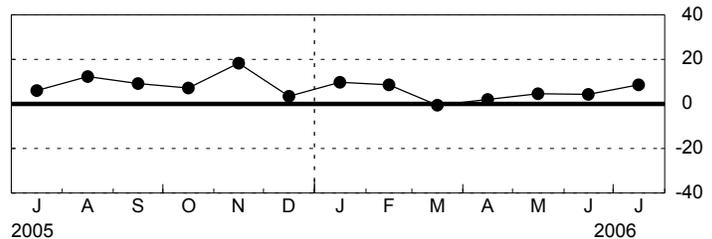
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	15.03	74.23	10.74	4.28
Jul	18.45	71.85	9.70	8.74

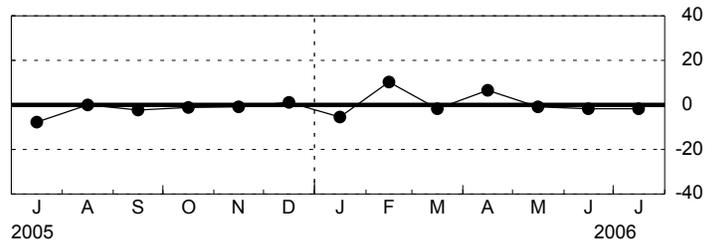
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	7.50	83.33	9.17	-1.67
Jul	8.41	81.31	10.28	-1.87

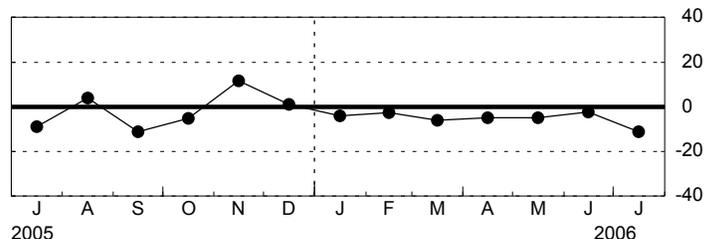
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	23.33	50.83	25.83	-2.50
Jul	16.82	55.14	28.04	-11.21

Inventories - Diffusion Index

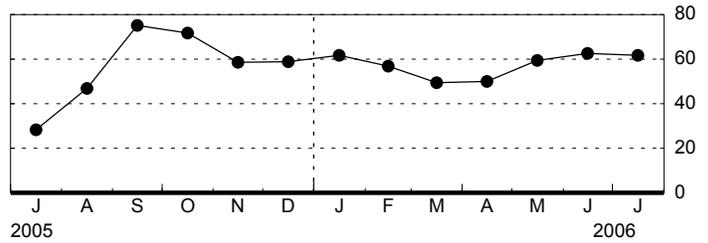


Empire State Manufacturing Survey, July 2006, Expectations Six Months Ahead Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	66.67	29.17	4.17	62.50
Jul	64.49	32.71	2.80	61.68

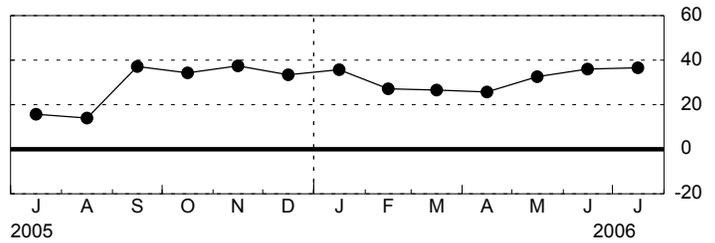
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	45.00	45.83	9.17	35.83
Jul	41.12	54.21	4.67	36.45

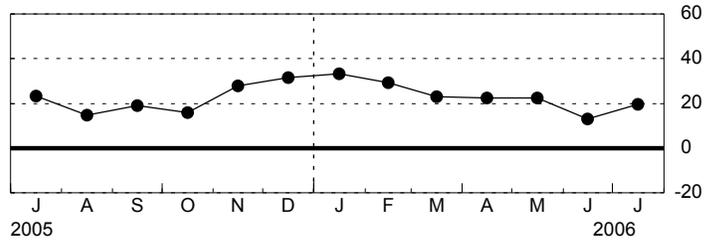
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	30.00	53.09	16.91	13.09
Jul	30.84	57.84	11.32	19.52

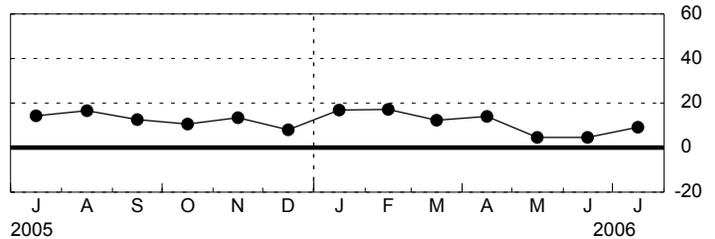
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	18.26	68.12	13.62	4.63
Jul	18.35	72.50	9.15	9.20

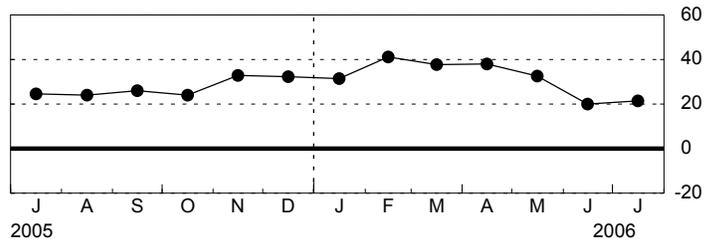
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	37.50	45.00	17.50	20.00
Jul	39.25	42.99	17.76	21.50

Capital Expenditures - Diffusion Index



Technology Spending

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jun	28.33	59.17	12.50	15.83
Jul	27.10	59.81	13.08	14.02

Technology Spending - Diffusion Index

