

# August 2006

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## Empire State Manufacturing

Survey



### Summary

The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers improved in August, but at the slowest pace in more than a year. The general business conditions index fell to 10.3. New orders and shipments indexes were positive and higher than last month. The unfilled orders index fell below zero for the first time in several months, and the inventories index remained negative for a third consecutive month. The indexes for prices paid and prices received retreated slightly but remained high. Employment indexes were positive but held to relatively low levels. Although positive, future indexes generally dipped from July levels, indicating a decline in the level of optimism about the six-month outlook. The capital expenditures index rose marginally.

In a series of supplementary questions, manufacturers were first asked to assess the extent to which certain business issues posed problems for their firms (see table). Of the issues listed, the *cost of employee benefits* was cited most frequently as a major problem, followed closely by *workers' compensation costs* and the *cost of resources* (such as energy and other commodities). Compared with the responses to a similar question asked in April 2005, the 2006 responses showed increased concern about *workers' compensation costs*, the *cost of credit*, the *ability to find qualified workers*, and the *availability of resources*; however, the *cost of resources* elicited only marginally more concern than in the earlier survey. Still, the rank order of problems in 2006 was largely unchanged from 2005 (see table). In response to additional questions that were not asked in 2005, almost half of the firms noted widespread problems filling job openings requiring specialized skills; more than 60 percent of firms reported that such jobs had grown harder to fill in the last six months.

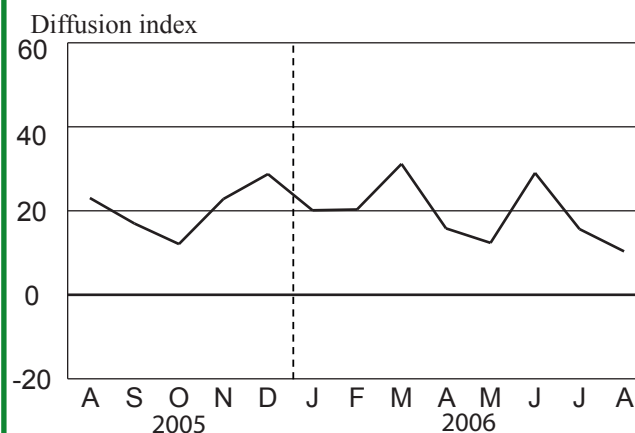
### Momentum Slows

The general business conditions index slipped for a second consecutive month, falling from 16.6 in July to 10.3 in August. While the positive reading this month indicated ongoing expansion in business activity, the index was at its lowest level since June 2005. Thirty-one percent of respondents reported an increase in activity, and 21 percent reported a decrease. In contrast to the declining business conditions index, the new orders index rose several points to 19.1, and the shipments index rose 2 points to 14.8. The unfilled orders index dropped 11 points -7.4, its lowest level in more than a year. The delivery time index hovered near zero. The inventories index remained negative for a third consecutive month, with 29 percent of respondents reporting a drop in inventories and 19 percent reporting a rise.

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### General Business Conditions



### Price Indexes Retreat Marginally

While adhering to relatively high levels, both the prices paid index and the prices received index fell somewhat. The prices paid index fell from 50.5 to 44.6, with 48 percent of respondents paying higher prices and 3 percent paying lower prices. The prices received index fell marginally, to 14.9, with 21 percent of respondents receiving higher prices compared with 24 percent in July. Employment indexes were positive but relatively low, indicating a modest expansion in employment. The number of employees index, at 6.5, was essentially unchanged from last month's level, while the average workweek index rose to 13.4.

### Level of Optimism Slides

Future indexes were generally positive in August, suggesting that manufacturers expect business activity to expand further over the next six months. However, most of the indexes fell from their July levels. The future general business conditions index dropped 10 points to 35.2, with 48 percent of respondents—down from 57 percent last month—expecting conditions to improve. The future new orders, shipments, and unfilled orders indexes also dipped but remained positive. The future inventories index rose to near zero after dropping well below zero last month. Future price indexes were elevated and near the levels of the past several months. Future employment indexes were positive. The capital expenditures index rose slightly, to 26.5, and the technology spending index climbed to 16.5.

### 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 Express Concern about the Cost and Availability of Labor

In the first of the supplementary questions, manufacturers were presented with a list of nine business issues and asked to assess the extent to which each posed a problem for the firm (see table). A similar question was asked in April 2005. As in 2005, the *cost of employee benefits* surpassed all other concerns, though by a much smaller margin this year. *Workers' compensation costs* ranked second in this month's survey, moving ahead of the *cost of resources*. With this and one other exception, however, the rank order of these problems was the same as in the earlier survey. While *finding qualified workers* and the *availability of resources* retained their positions in the ranking, both were seen as greater problems than in last year's survey. The *cost of credit* also emerged as a much larger concern this year, jumping well ahead of the *availability of credit* in the rankings.

Two additional questions, not asked in 2005, focused on the difficulties that firms are having filling both specialized and general job openings. Only one in five firms reported trouble filling a wide variety of job openings, but roughly half noted difficulty in filling job openings requiring specialized skills. When asked how such difficulties had changed over the past six months, firms gave mixed responses: only 26 percent reported increased difficulty in filling openings requiring general skills, but more than 60 percent said that it had become harder to find workers with specialized skills.

### August 2006 Survey Results Responses to Supplementary Questions

1) To what degree does each of the following pose a problem for your firm?	<i>August 2006</i>	<i>April 2005</i>
	<b>Percentage of Respondents Indicating Major Problem*</b>	
Cost of employee benefits	72.9	74.6
Workers' compensation costs	66.1	55.9
Cost of resources	61.5	59.0
Finding qualified workers	47.5	36.4
Unemployment insurance costs	36.4	30.3
Cost of employee wages	31.4	28.8
Availability of resources (incl. energy)	21.2	11.8
Cost of credit	19.5	6.7
Availability of credit	7.6	8.5

\* Responses are on a scale of 1 (relatively minor problem) to 5 (relatively major problem); the percentages in the table capture responses of either 4 or 5.

2) Which of the following most closely describes your firm's recent experience in filling job openings?	<b>Percentage of Respondents</b>
No job openings recently	9.4
No difficulty filling job openings	19.7
Difficulty filling certain jobs requiring specialized skills	51.3
Difficulty filling a wide variety of jobs	19.7

3) Compared with six months ago, how much more or less difficult has it become to fill job openings requiring...	<i>General Skills</i>	<i>Specialized Skills</i>
	<b>Percentage of Respondents</b>	
Much less difficult	0.9	0.9
Less difficult	13.8	2.6
No change	59.5	34.2
More difficult	17.2	40.4
Much more difficult	8.6	21.9

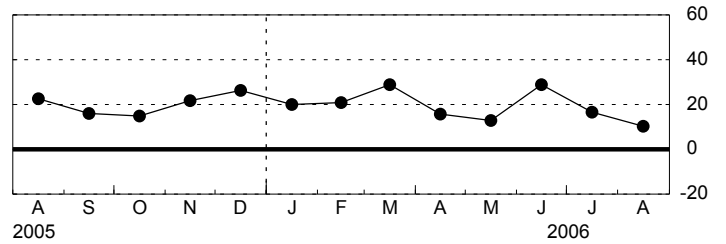
# Empire State Manufacturing Survey, August 2006

## Seasonally Adjusted

### General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	33.30	49.98	16.72	16.58
Aug	30.91	48.52	20.57	10.34

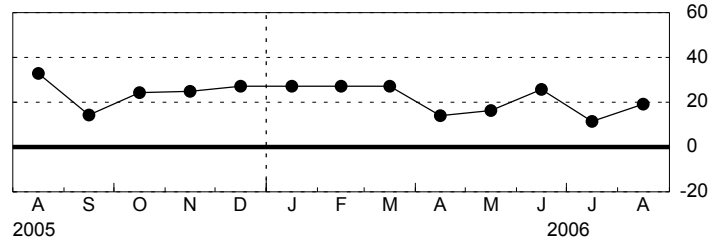
### General Business Conditions - Diffusion Index



### New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	31.41	48.47	20.11	11.30
Aug	33.90	51.32	14.78	19.12

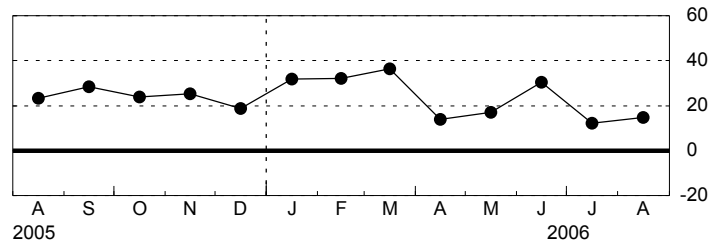
### New Orders - Diffusion Index



### Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	27.48	57.35	15.17	12.31
Aug	36.90	40.97	22.12	14.78

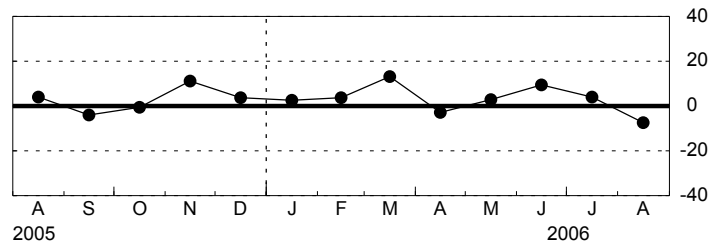
### Shipments - Diffusion Index



### Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	19.12	65.78	15.10	4.02
Aug	13.63	65.36	21.01	-7.38

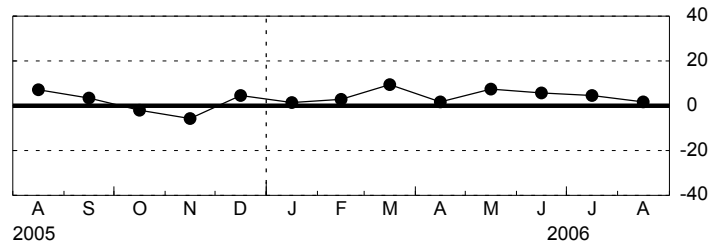
### Unfilled Orders - Diffusion Index



### Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	10.09	84.40	5.50	4.59
Aug	13.22	75.21	11.57	1.65

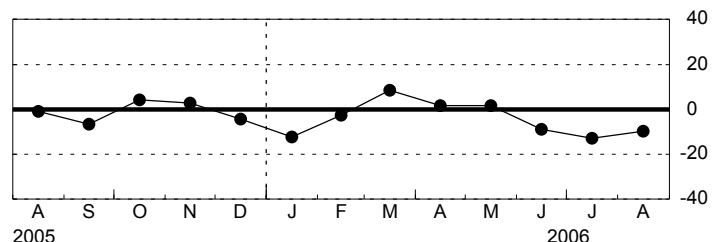
### Delivery Time - Diffusion Index



### Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	14.68	57.80	27.52	-12.84
Aug	19.01	52.07	28.93	-9.92

### Inventories - Diffusion Index



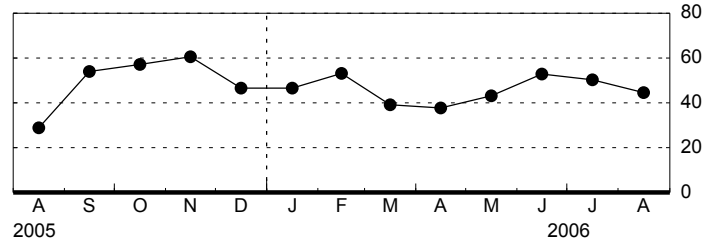
# Empire State Manufacturing Survey, August 2006

## Seasonally Adjusted

### Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	50.46	49.54	0.00	50.46
Aug	47.93	48.76	3.31	44.63

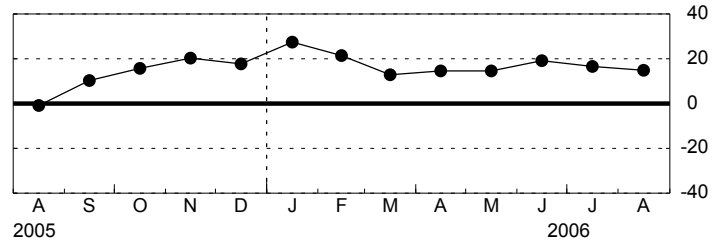
**Prices Paid - Diffusion Index**



### Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	23.85	68.81	7.34	16.51
Aug	20.66	73.55	5.79	14.88

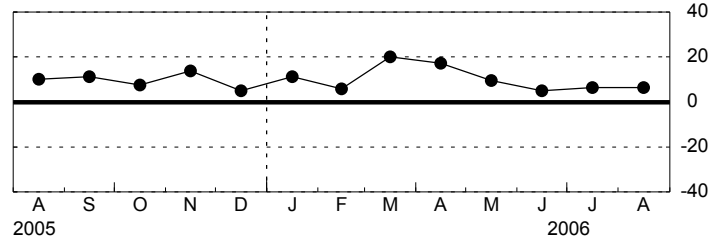
**Prices Received - Diffusion Index**



### Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	23.81	58.75	17.43	6.38
Aug	21.38	63.75	14.88	6.50

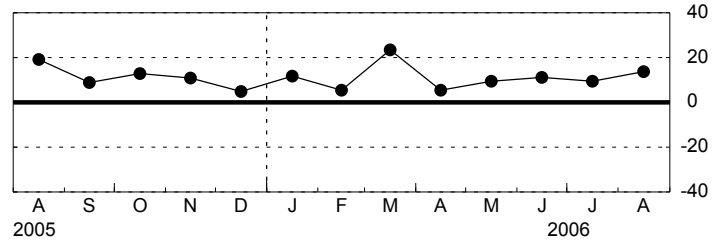
**Number of Employees - Diffusion Index**



### Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	23.30	62.94	13.76	9.54
Aug	23.57	66.51	9.92	13.66

**Average Employee Workweek - Diffusion Index**

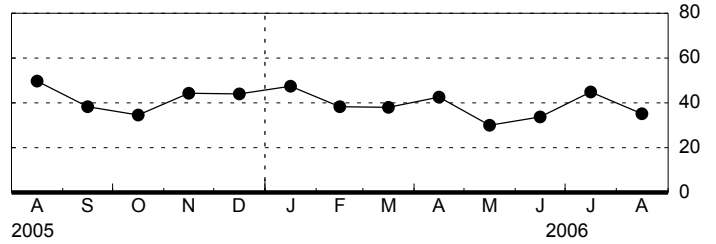


# Empire State Manufacturing Survey, August 2006, Expectations Six Months Ahead Seasonally Adjusted

## General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	56.58	31.83	11.59	44.99
Aug	48.25	38.71	13.05	35.20

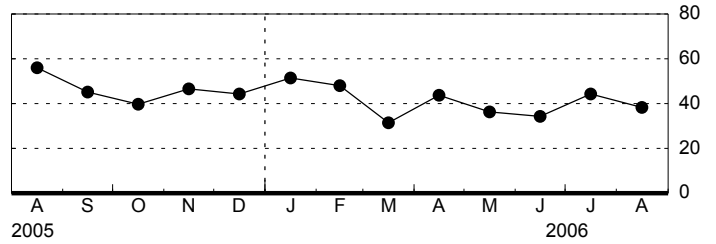
## General Business Conditions - Diffusion Index



## New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	54.53	35.07	10.40	44.14
Aug	51.06	36.07	12.87	38.19

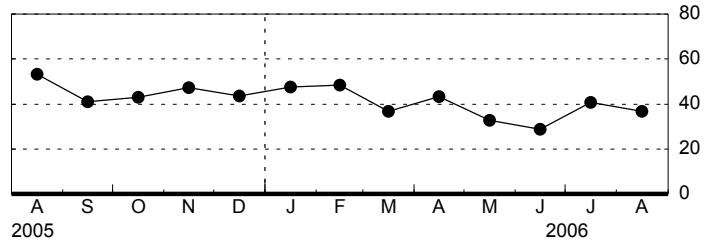
## New Orders - Diffusion Index



## Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	50.51	39.80	9.69	40.81
Aug	51.04	34.74	14.21	36.83

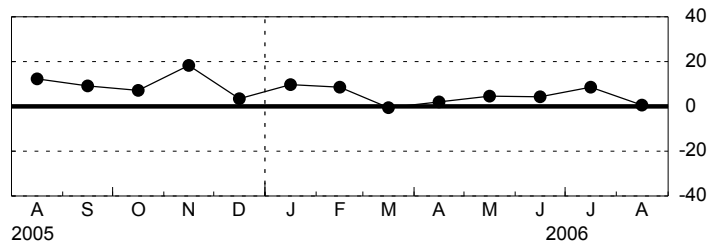
## Shipments - Diffusion Index



## Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	18.12	72.36	9.52	8.60
Aug	9.54	81.62	8.84	0.70

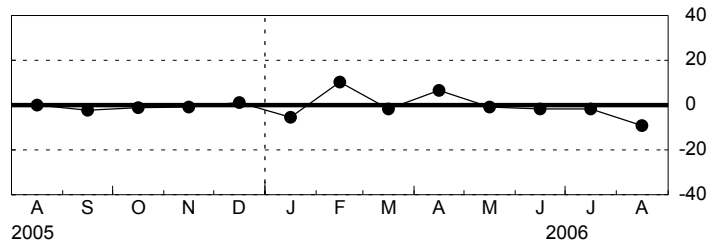
## Unfilled Orders - Diffusion Index



## Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	8.26	81.65	10.09	-1.83
Aug	4.13	82.64	13.22	-9.09

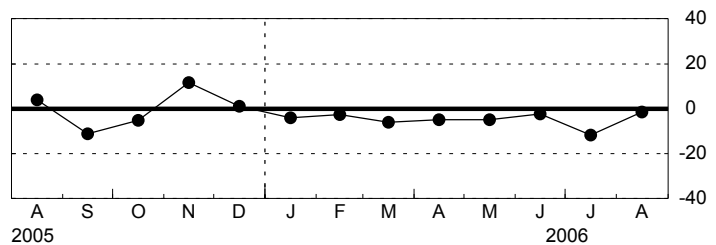
## Delivery Time - Diffusion Index



## Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	16.51	55.05	28.44	-11.93
Aug	25.62	47.11	27.27	-1.65

## Inventories - Diffusion Index

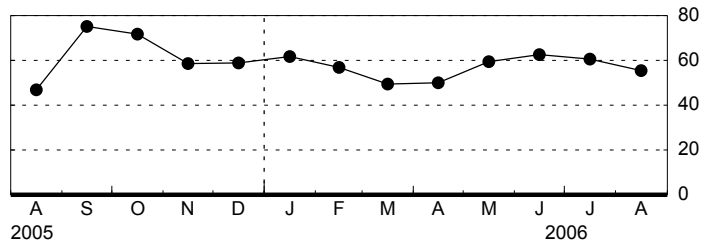


# Empire State Manufacturing Survey, August 2006, Expectations Six Months Ahead Seasonally Adjusted

## Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	63.30	33.94	2.75	60.55
Aug	59.50	36.36	4.13	55.37

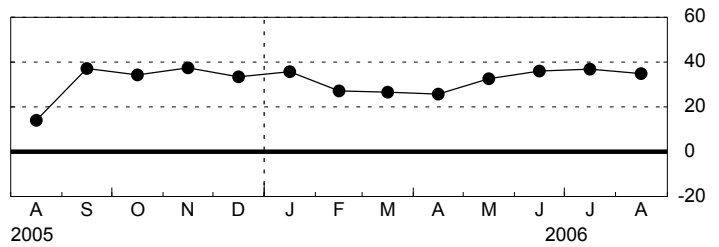
**Prices Paid - Diffusion Index**



## Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	41.28	54.13	4.59	36.70
Aug	38.84	57.02	4.13	34.71

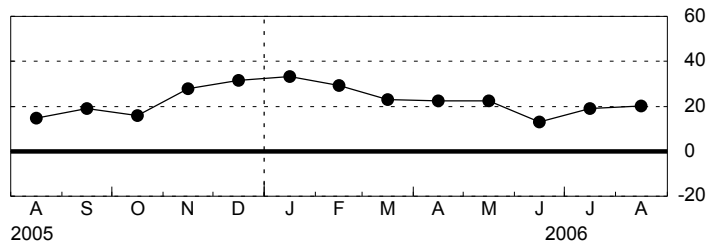
**Prices Received - Diffusion Index**



## Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	30.28	58.62	11.11	19.17
Aug	32.23	55.64	12.12	20.11

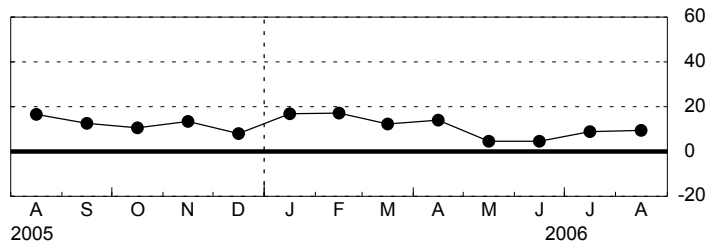
**Number of Employees - Diffusion Index**



## Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	18.02	73.00	8.98	9.04
Aug	17.54	74.34	8.12	9.42

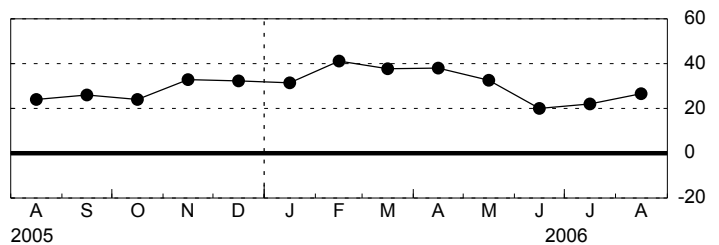
**Average Employee Workweek - Diffusion Index**



## Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	39.45	43.12	17.43	22.02
Aug	42.98	40.50	16.53	26.45

**Capital Expenditures - Diffusion Index**



## Technology Spending

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jul	27.52	59.63	12.84	14.68
Aug	28.93	58.68	12.40	16.53

**Technology Spending - Diffusion Index**

