

April 2007

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Empire State Manufacturing

Survey



Summary

The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers were essentially flat again in April. The general business conditions index edged up 2 points, to 3.8, rebounding only marginally from its March value, the lowest in nearly two years. While the new orders index held steady, the shipments index fell to its lowest level since mid-2005, and the index for unfilled orders slipped further into negative territory. The prices paid index jumped several points, but the prices received index continued to decline. Employment indexes weakened moderately but remained positive. Future activity indexes held relatively steady at generally high levels. Price expectations indexes were mixed, with continued widespread increases anticipated in prices paid but more subdued expectations about prices received.

In a series of supplementary questions, manufacturers were asked to estimate changes in the various components of unit labor costs and worker productivity. The same questions were asked in April 2006. In the current survey, unit labor costs were estimated to have increased by slightly less than 2 percent, on average, over the past year, and were expected to rise 2 percent in the year ahead. In assessing recent trends in worker productivity, almost one-quarter of respondents reported moderate to rapid growth while roughly 13 percent indicated declines; looking to the year ahead, about 30 percent of respondents anticipated moderate to rapid gains while none predicted a decline.

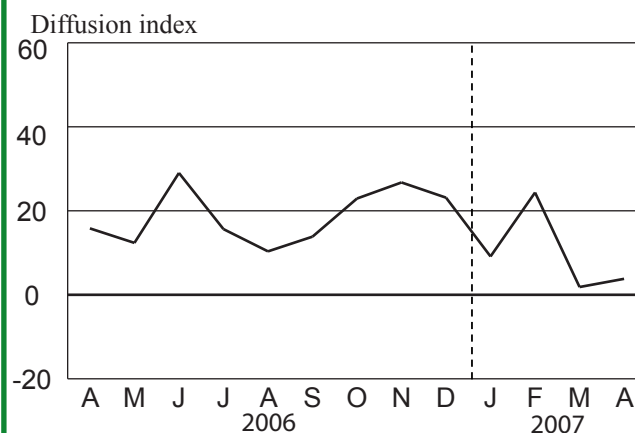
General Business Conditions Remain Sluggish

The general business conditions index edged up 2 points to 3.8 in April, following a twenty-two-point drop in March that brought the index to its lowest level in nearly two years. The percentage of respondents reporting that conditions had improved slipped from 32 percent to 29 percent, but the percentage reporting that conditions had deteriorated declined a bit more sharply, from 30 percent to 25 percent. The new orders index held steady at 3.9, but the shipments index fell from 18.5 to 8.7, and the unfilled orders index dipped from -8.1 to -8.3. The delivery time and inventories indexes both rose above zero for the first time this year.

Widespread Increases Are Seen in Prices Paid but Not Prices Received

The prices paid index jumped 10 points in April, to 40.5, its highest level in eight months: 44 percent of respondents reported higher prices, while 4 percent reported lower prices.

General Business Conditions



However, the prices received index continued to drift down, slipping from 10.5 in March to 7.1 in April, as the proportion of firms indicating price declines increased from 7 percent to 12 percent. Employment indexes fell but remained marginally positive: the index for number of employees slipped 6 points, to 5.4, while the average workweek index fell 12 points, to 1.2.

Expectations Are Mixed but Still Positive

The future indexes suggest continued optimism about business activity over the next six months, widespread expectations of ongoing input price pressures, and more modest expectations of a rise in prices received. The future general business conditions index inched down from 35.2 in March to 33.9 in April. Similarly, most of the specific future activity indexes declined moderately: the new orders index decreased from 39.2 to 35.2, the shipments index slipped from 45.4 to 38.0, and the unfilled orders index edged down 2 points to 0.5. The future prices paid index was little changed at 42.9, but the prices received index tumbled 17 points to 17.8—its lowest level since mid-2005. The future index for number of employees declined for the third month in a row, but the average workweek index, which had fallen sharply in March, rebounded moderately in April. The index for expected capital expenditures slipped from 32.6 to 27.4, while the technology spending index dipped 3 points, to 14.3.

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 See Moderate Rise in Unit Labor Costs

In a series of supplementary questions in the April survey, manufacturers were asked about both past and expected changes in total compensation, total sales revenue, and average prices. These questions were designed to gauge changes in unit labor costs—the cost, in wages and salaries, to produce a unit of output. Respondents reported that sales revenue, on average, had expanded by slightly more than 6 percent over the past four quarters—reflecting a 4 percent increase in real sales (output) and a 2 percent rise in prices—while compensation had climbed roughly 6 percent. These estimates would suggest an increase in unit labor costs of roughly 2 percent (see table). In last year's survey, reported output growth was about the same, but compensation growth was a bit slower; as a result, unit labor costs had been seen as unchanged.

Looking ahead to the next four quarters, respondents in the current survey expected real sales (output) growth to slow to 2 percent, on average, and compensation to rise 4 percent. These

figures would translate into a rise in unit labor costs of roughly 2 percent. In the 2006 survey, respondents had anticipated a 1 percent decline in unit labor costs, on average.

Respondents were also asked about changes in worker productivity over the past four quarters, as well as expected changes over the next four quarters. Reported trends (both past and expected) were generally favorable in the current survey, though a bit less so than in the 2006 survey. Specifically, almost 25 percent of manufacturers reported that productivity had increased moderately or rapidly over the past four quarters, and 32 percent expected the same for the year ahead (see table). Another 30 percent reported slow growth over the past year, while 44 percent expected the same for the year ahead. Roughly 13 percent of respondents reported declining worker productivity over the past year, but none expected productivity to decline in the year ahead.

April 2007 Survey Results Responses to Supplementary Questions

1) For each of the following categories, please estimate the actual percentage change from the first quarter (Q1) of 2005 to the first quarter (Q1) of 2006, and the expected percentage change between the first quarter of 2006 and the first quarter of 2007

	Average Percentage Increase	
	<i>Past 4 Quarters</i>	<i>Next 4 Quarters</i>
	<u>2005Q1-2006Q1</u>	<u>2006Q1-2007Q1</u>
Total compensation	6.1	4.2
Total sales revenue	6.2	4.3
Selling prices for your products	2.0	2.0
<i>Imputed measures (differences in growth)</i>		
Real sales (revenues minus selling prices)	4.2	2.3
Unit labor costs (compensation minus real sales)	1.9	1.9

2) How has worker productivity at your establishment changed over the past four quarters, and how do you expect it to change over the next four quarters?

<u>Reported Change in Productivity</u>	Percentage of Respondents	
	<i>Past 4 Quarters</i>	<i>Next 4 Quarters</i>
	<u>2005Q1-2006Q1</u>	<u>2006Q1-2007Q1</u>
Decline	12.8	0.0
Remain the same	33.3	24.4
Grow slowly	29.5	43.6
Grow moderately	23.1	29.5
Grow rapidly	1.3	2.6

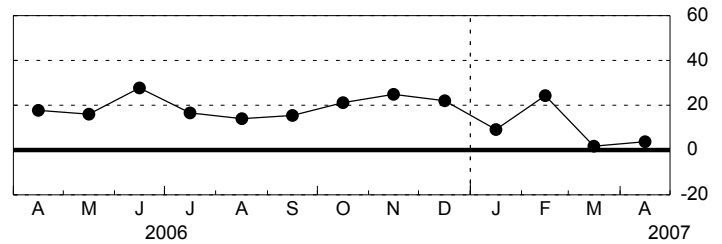
Empire State Manufacturing Survey, April 2007

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	31.62	38.60	29.78	1.85
Apr	28.53	46.73	24.74	3.80

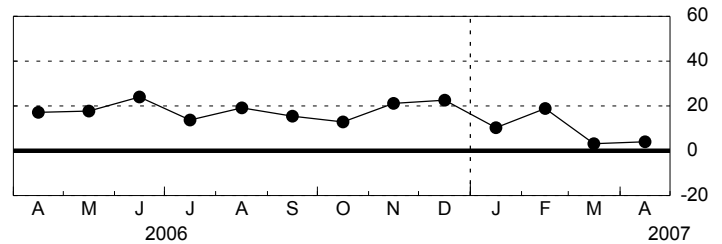
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	32.07	39.01	28.93	3.14
Apr	29.07	45.81	25.13	3.94

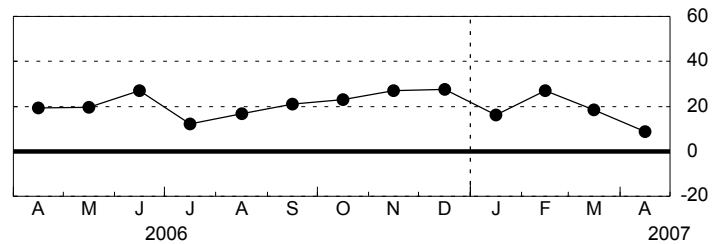
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	42.13	34.28	23.59	18.54
Apr	34.90	38.86	26.24	8.66

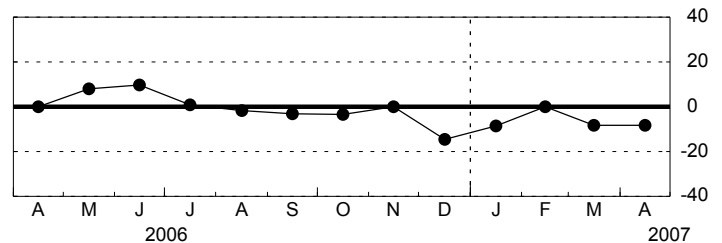
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	8.14	75.58	16.28	-8.14
Apr	9.52	72.62	17.86	-8.33

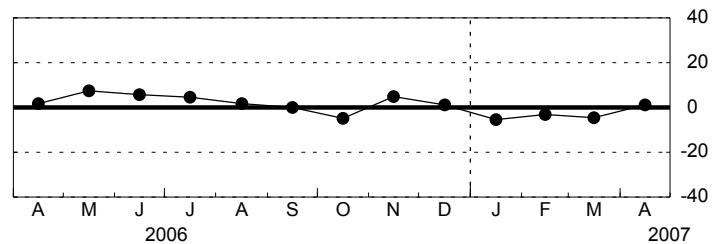
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	6.98	81.40	11.63	-4.65
Apr	9.52	82.14	8.33	1.19

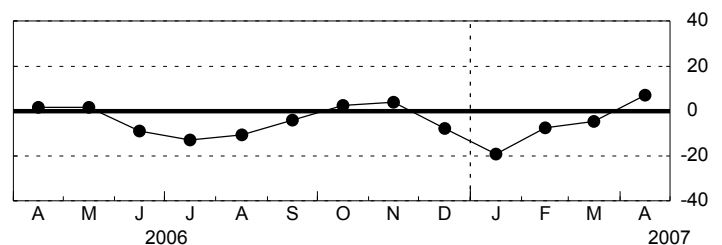
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	20.93	53.49	25.58	-4.65
Apr	25.00	57.14	17.86	7.14

Inventories - Diffusion Index

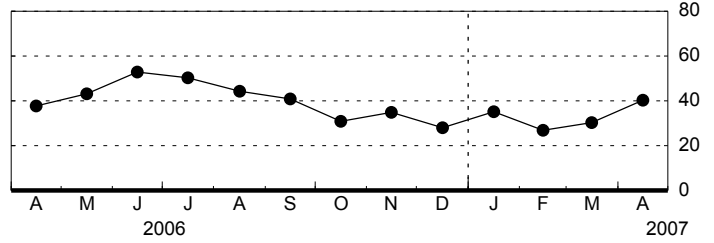


Empire State Manufacturing Survey, April 2007 Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	30.23	69.77	0.00	30.23
Apr	44.05	52.38	3.57	40.48

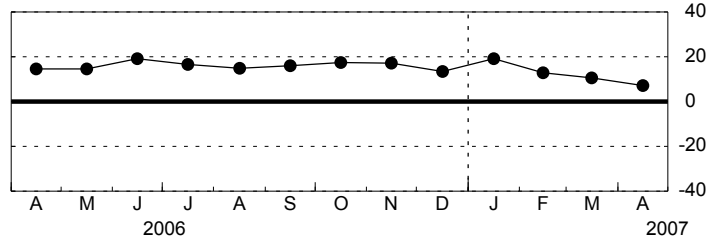
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	17.44	75.58	6.98	10.47
Apr	19.05	69.05	11.90	7.14

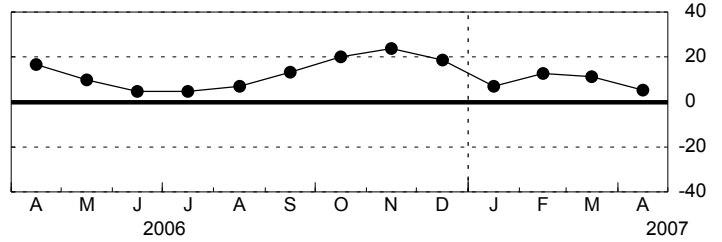
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	23.00	65.38	11.63	11.37
Apr	19.70	66.01	14.29	5.42

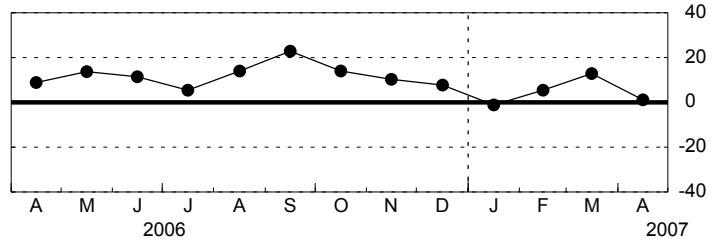
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	23.26	66.28	10.47	12.79
Apr	17.86	65.48	16.67	1.19

Average Employee Workweek - Diffusion Index



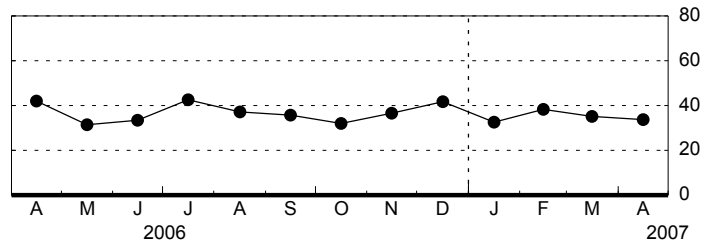
Empire State Manufacturing Survey, April 2007, Expectations Six Months Ahead

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	45.25	44.68	10.08	35.17
Apr	42.70	48.46	8.84	33.85

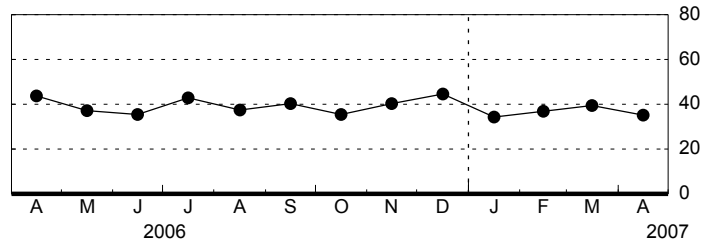
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	51.13	37.01	11.86	39.28
Apr	46.42	42.35	11.23	35.19

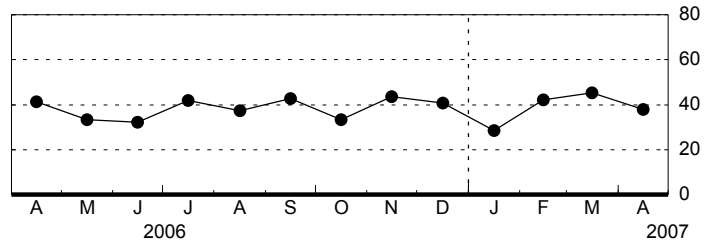
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	52.28	40.88	6.84	45.44
Apr	48.61	40.77	10.61	38.00

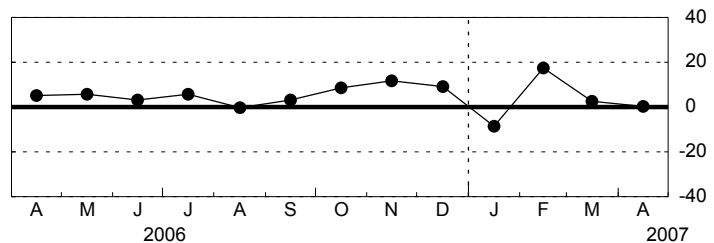
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	15.12	72.29	12.59	2.52
Apr	15.48	69.54	14.98	0.49

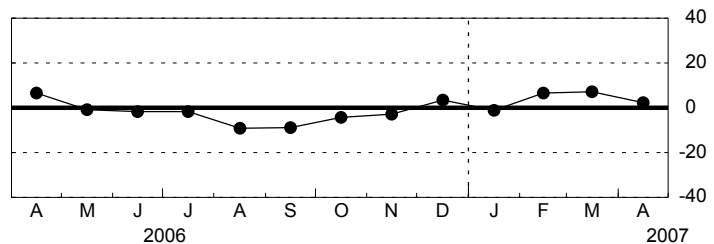
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	11.63	83.72	4.65	6.98
Apr	5.95	90.48	3.57	2.38

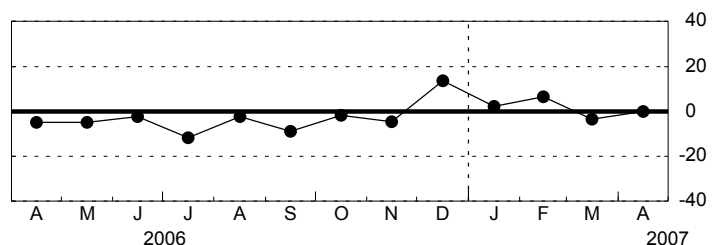
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	23.26	50.00	26.74	-3.49
Apr	25.00	50.00	25.00	0.00

Inventories - Diffusion Index

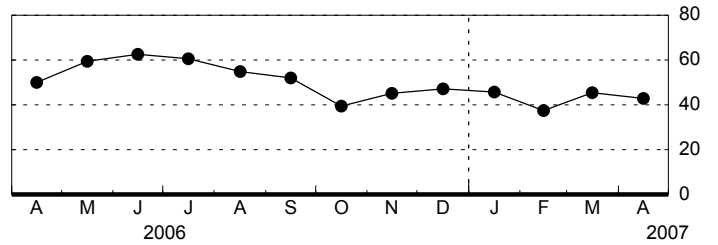


Empire State Manufacturing Survey, April 2007, Expectations Six Months Ahead Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	47.67	50.00	2.33	45.35
Apr	47.62	47.62	4.76	42.86

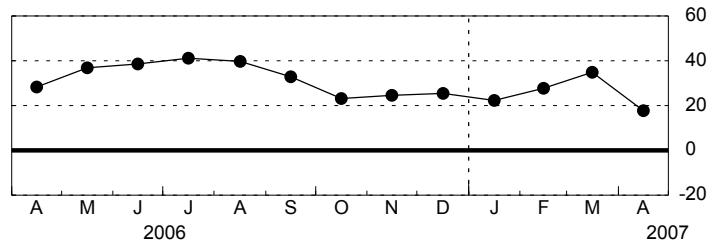
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	37.09	60.58	2.33	34.77
Apr	28.48	60.81	10.71	17.77

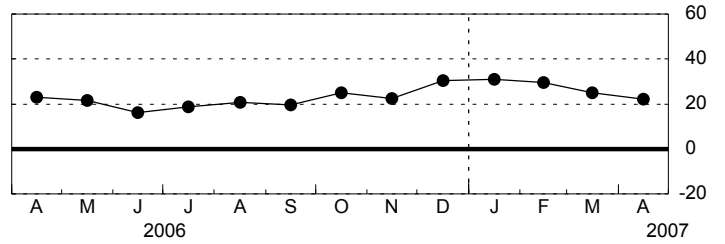
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	36.05	52.82	11.14	24.91
Apr	33.33	55.44	11.23	22.11

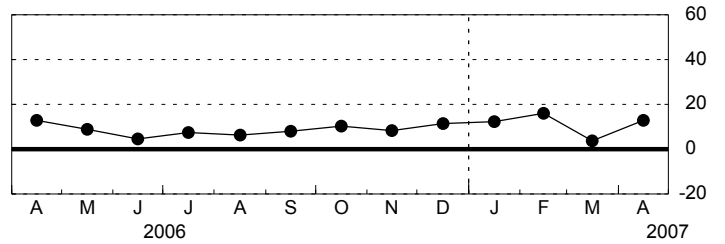
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	14.42	75.12	10.47	3.95
Apr	18.94	75.11	5.95	12.98

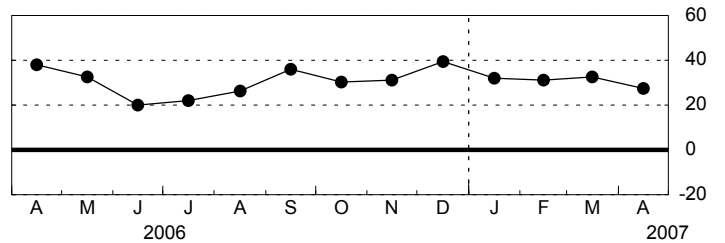
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	43.02	46.51	10.47	32.56
Apr	38.10	51.19	10.71	27.38

Capital Expenditures - Diffusion Index



Technology Spending

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	26.74	63.95	9.30	17.44
Apr	22.62	69.05	8.33	14.29

Technology Spending - Diffusion Index

