

Empire State Manufacturing Survey

The *Empire State Manufacturing Survey* indicates that conditions deteriorated in November for New York State manufacturers. For the first time since mid-2009, the general business conditions index fell below zero, declining 27 points to -11.1. The new orders index plummeted 37 points to -24.4, and the shipments index also fell below zero. The indexes for both prices paid and prices received declined, with the latter falling into negative territory. The index for number of employees remained above zero but was well below its October level, and the average workweek index dropped to -13.0. Future indexes generally climbed,

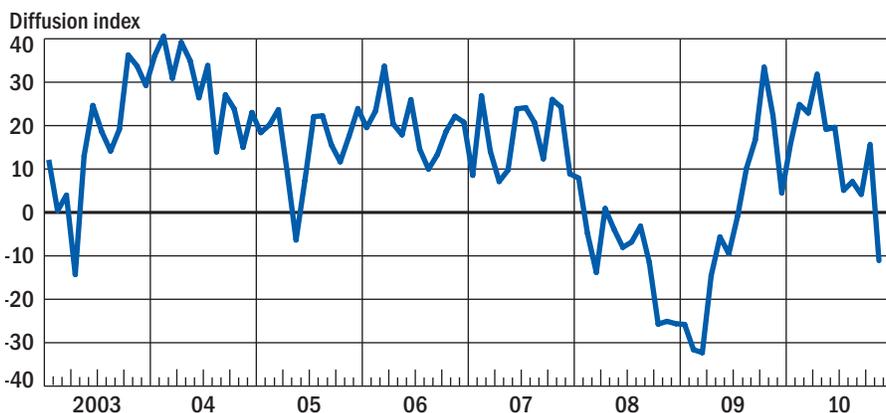
suggesting that conditions were expected to improve in the months ahead, although the capital spending and technology spending indexes inched lower.

In a series of supplementary questions, respondents were asked about cash holdings and debt financing. A majority of respondents reported that they expected their outstanding debt levels to remain unchanged over the next year; of those firms that expected a change in debt levels, the number anticipating a decline somewhat exceeded the number expecting an increase. In response to a question about current cash

holdings, 35 percent of firms said that they were currently holding higher than usual (excess) cash balances, while just 22 percent indicated that their cash balances were lower than usual. Moreover, looking ahead to the next twelve months, a sizable 42 percent of respondents expected their cash holdings to increase, whereas fewer than half that number expected cash balances to decline. Finally, when asked how they planned to finance capital spending over the next year, respondents indicated that they would use cash to finance nearly 60 percent of expenditures.

General Business Conditions

Seasonally adjusted



Business Activity Declines

The general business conditions index fell below zero for the first time since July of 2009, dropping a steep 27 points to -11.1—an indication that, on balance, conditions had worsened over the month. The percentage of respondents reporting that conditions had improved fell from 35 percent in October to just 17 percent in November, while the percentage reporting that conditions had worsened rose from 20 percent to 28 percent. The new orders index plummeted 37 points to -24.4, its sharpest drop

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since September 2001. Nearly 40 percent of respondents reported that orders were down. The shipments index fell 26 points to -6.1, and the unfilled orders index declined 23 points to -24.7. The delivery time index, at -9.1, was little changed. The inventories index rose to zero after dropping into negative territory last month.

Price Indexes Fall

Indexes for both prices paid and prices received were below their October levels. The prices paid index fell 8 points to 22.1, suggesting that the pace of price increases had slowed in November. The prices received index dropped below zero, falling 11 points to -2.6—a sign of slight downward

pressure on selling prices. Employment indexes were also lower. The index for number of employees fell 13 points but, at 9.1, remained above zero, indicating that employment levels were modestly higher in November. The average workweek index, however, fell below zero, to -13.0, indicating that the average length of the employee workweek was shorter.

Conditions Expected to Get Better

While current indexes pointed to a decline in business activity in November, future indexes suggested that manufacturers expected conditions to be better in six months. The future general business conditions index climbed to 54.6, with 60 percent of

respondents expecting conditions to improve over the next six months, while just 5 percent expected conditions to worsen. The future new orders index rose to 53.3, and the future shipments index rose to 45.5. The future prices paid index held steady at 40.3, while the future prices received index climbed to 35.1, its highest level in two years, suggesting that respondents expected selling prices to rise. Future employment indexes were positive, indicating that employment levels were expected to be higher. The capital spending index was slightly lower, at 23.4, and the technology spending index inched down to 10.4. ■

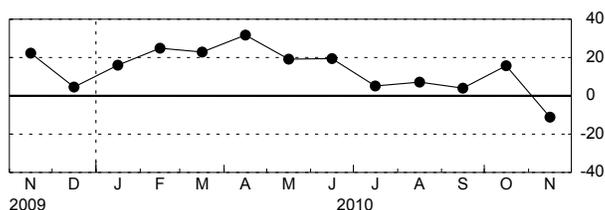
Current Indicators

Change from Preceding Month

General Business Conditions

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 35.45 | 44.84 | 19.72 | 15.73 |
| Nov | 16.67 | 55.52 | 27.81 | -11.14 |

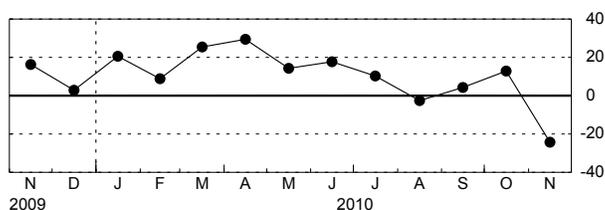
General Business Conditions - Diffusion Index



New Orders

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 35.61 | 41.69 | 22.70 | 12.90 |
| Nov | 13.88 | 47.87 | 38.26 | -24.38 |

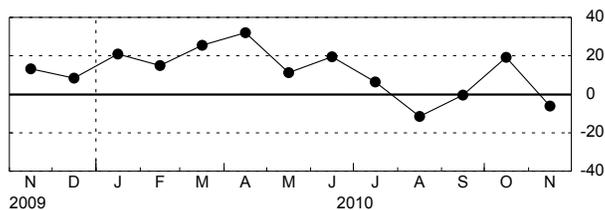
New Orders - Diffusion Index



Shipments

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 42.06 | 35.27 | 22.67 | 19.39 |
| Nov | 19.76 | 54.35 | 25.89 | -6.13 |

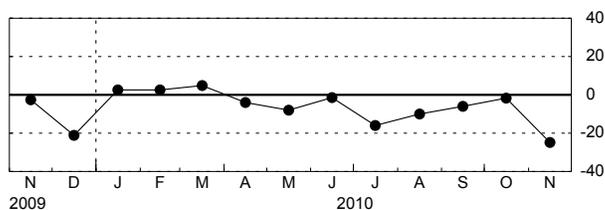
Shipments - Diffusion Index



Unfilled Orders

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 15.00 | 68.33 | 16.67 | -1.67 |
| Nov | 2.60 | 70.13 | 27.27 | -24.68 |

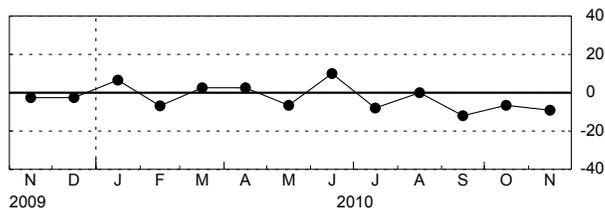
Unfilled Orders - Diffusion Index



Delivery Time

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 6.67 | 80.00 | 13.33 | -6.67 |
| Nov | 2.60 | 85.71 | 11.69 | -9.09 |

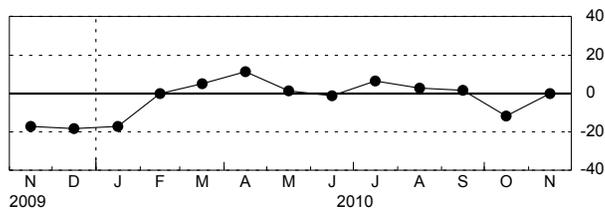
Delivery Time - Diffusion Index



Inventories

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 23.33 | 41.67 | 35.00 | -11.67 |
| Nov | 25.97 | 48.05 | 25.97 | 0.00 |

Inventories - Diffusion Index



Current Indicators, *continued*

Change from Preceding Month

Prices Paid

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 35.00 | 60.00 | 5.00 | 30.00 |
| Nov | 28.57 | 64.94 | 6.49 | 22.08 |

Prices Received

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 13.33 | 81.67 | 5.00 | 8.33 |
| Nov | 6.49 | 84.42 | 9.09 | -2.60 |

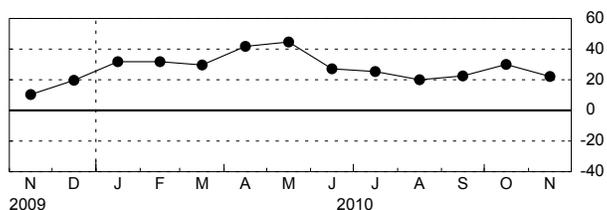
Number of Employees

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 33.33 | 55.00 | 11.67 | 21.67 |
| Nov | 20.78 | 67.53 | 11.69 | 9.09 |

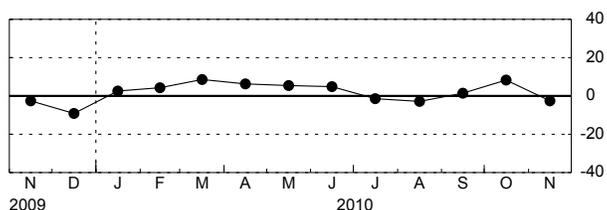
Average Employee Workweek

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 23.33 | 56.67 | 20.00 | 3.33 |
| Nov | 6.49 | 74.03 | 19.48 | -12.99 |

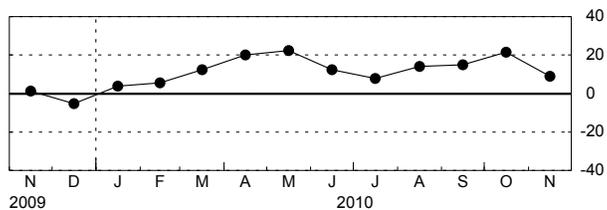
Prices Paid - Diffusion Index



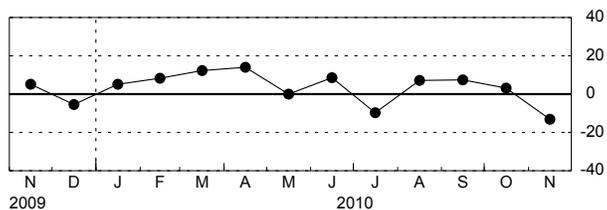
Prices Received - Diffusion Index



Number of Employees - Diffusion Index



Average Employee Workweek - Diffusion Index



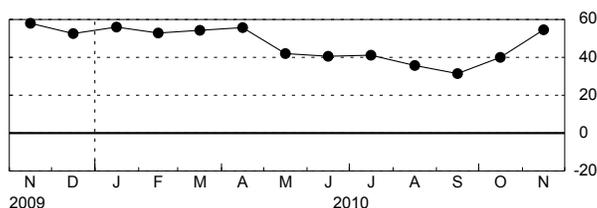
Forward-Looking Indicators

Expectations Six Months Ahead

General Business Conditions

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 51.67 | 36.67 | 11.67 | 40.00 |
| Nov | 59.74 | 35.06 | 5.19 | 54.55 |

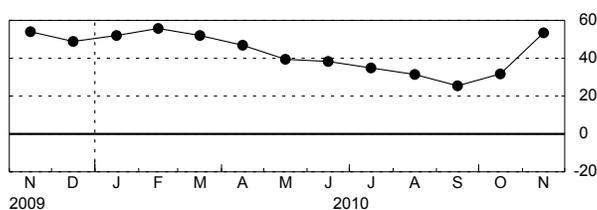
General Business Conditions - Diffusion Index



New Orders

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 41.67 | 48.33 | 10.00 | 31.67 |
| Nov | 59.74 | 33.77 | 6.49 | 53.25 |

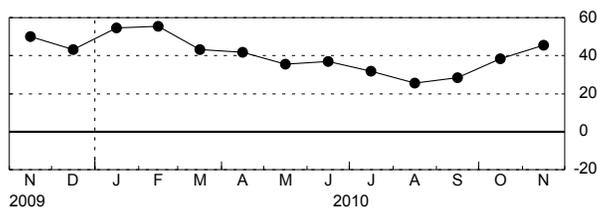
New Orders - Diffusion Index



Shipments

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 48.33 | 41.67 | 10.00 | 38.33 |
| Nov | 51.95 | 41.56 | 6.49 | 45.45 |

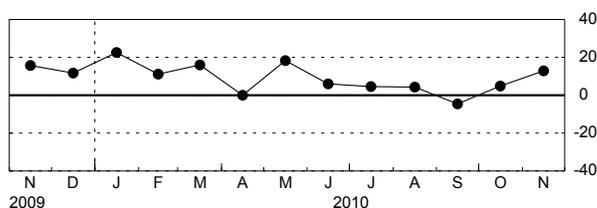
Shipments - Diffusion Index



Unfilled Orders

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 16.67 | 71.67 | 11.67 | 5.00 |
| Nov | 24.68 | 63.64 | 11.69 | 12.99 |

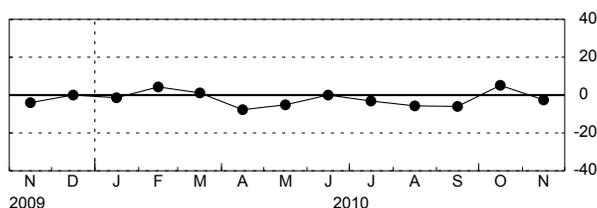
Unfilled Orders - Diffusion Index



Delivery Time

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 11.67 | 81.67 | 6.67 | 5.00 |
| Nov | 7.79 | 81.82 | 10.39 | -2.60 |

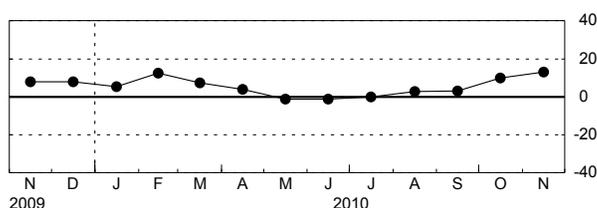
Delivery Time - Diffusion Index



Inventories

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 26.67 | 56.67 | 16.67 | 10.00 |
| Nov | 31.17 | 50.65 | 18.18 | 12.99 |

Inventories - Diffusion Index



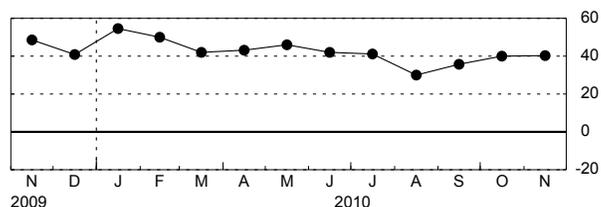
Forward-Looking Indicators, *continued*

Expectations Six Months Ahead

Prices Paid

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 43.33 | 53.33 | 3.33 | 40.00 |
| Nov | 45.45 | 49.35 | 5.19 | 40.26 |

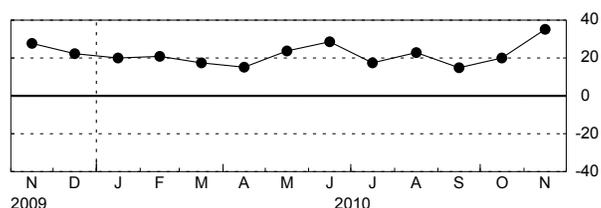
Prices Paid - Diffusion Index



Prices Received

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 30.00 | 60.00 | 10.00 | 20.00 |
| Nov | 45.45 | 44.16 | 10.39 | 35.06 |

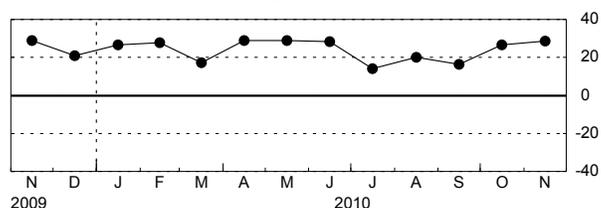
Prices Received - Diffusion Index



Number of Employees

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 35.00 | 56.67 | 8.33 | 26.67 |
| Nov | 40.26 | 48.05 | 11.69 | 28.57 |

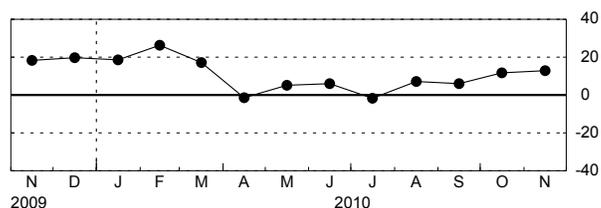
Number of Employees - Diffusion Index



Average Employee Workweek

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 16.67 | 78.33 | 5.00 | 11.67 |
| Nov | 22.08 | 68.83 | 9.09 | 12.99 |

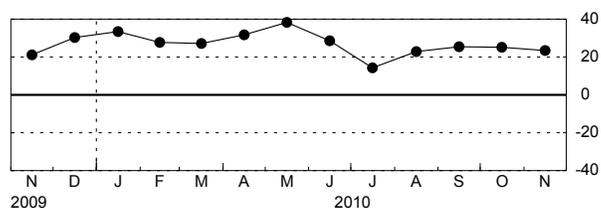
Average Employee Workweek - Diffusion Index



Capital Expenditures

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 33.33 | 58.33 | 8.33 | 25.00 |
| Nov | 37.66 | 48.05 | 14.29 | 23.38 |

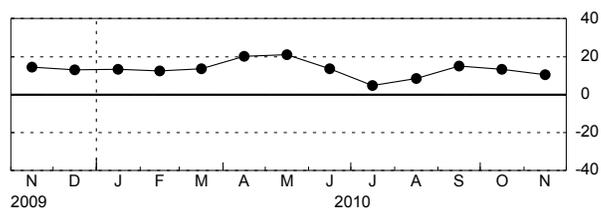
Capital Expenditures - Diffusion Index



Technology Spending

| | <u>Higher</u> | <u>Same</u> | <u>Lower</u> | <u>Index</u> |
|-----|---------------|-------------|--------------|--------------|
| Oct | 23.33 | 66.67 | 10.00 | 13.33 |
| Nov | 20.78 | 68.83 | 10.39 | 10.39 |

Technology Spending - Diffusion Index



Note: All data are seasonally adjusted.

Supplemental Report:

Firms Anticipate Steady Debt Levels, Rising Cash Holdings

The supplementary questions to the November 2010 *Empire State Manufacturing Survey* focused on cash holdings and debt financing; the same questions had been asked in the November surveys in 2009 and earlier years (see table). Asked about expected changes in their outstanding debt, slightly more than half of manufacturing respondents indicated that debt levels would remain unchanged over the next twelve months; 30 percent said that they anticipated declines, while 18 percent expected increases. These findings differ markedly from the results of last year's survey, in which the number of respondents anticipating decreases in debt was more than twice that expecting increases. Still, there appears to be less widespread inclination (or ability) to take on more debt than in 2008 and earlier years.

In the current survey, 42 percent of manufacturers expected cash holdings to increase over the next year, while 19 percent expected them to decline. This is a somewhat wider positive margin than in last year's survey, and a complete reversal of the November 2008 survey results, which showed that more respondents expected cash holdings to decline than rise. In response to a related question about *current* cash holdings, 35 percent of firms—roughly the same proportion as in last year's survey—said that they were currently holding higher than usual (excess) cash balances. Just 22 percent of firms indicated that their cash balances were lower than usual, down from 30 percent in each of the prior three years' surveys.

When asked how they planned to finance capital expenditures over the next twelve months, manufacturers responded in much the same way as in last November's survey: on average, they planned to finance nearly 60 percent of capital outlays with cash—the same percentage as in last year's survey but up considerably from 46 percent in the 2008 survey. Firms expected to finance 24 percent of their capital spending with debt, just 3 percent with equity, and 13 percent through the leasing, rather than the purchase, of equipment. Like the proportion of capital spending financed with cash, these percentages are almost identical to those in the 2009 survey. Prior to 2009, the use of debt to finance capital spending was nearly as widespread as the use of cash. ■

Continued

Supplemental Report, *continued*

QUESTION 1

How do you expect your firm's debt levels and cash balances to change over the next twelve months?

| | Debt Levels | | | Cash Balances | | |
|-----------------|---------------------------|---------------|---------------|---------------------------|---------------|---------------|
| | Percentage of Respondents | | | Percentage of Respondents | | |
| | November 2010 | November 2009 | November 2008 | November 2010 | November 2009 | November 2009 |
| Increase | 18 | 16 | 30 | 42 | 41 | 30 |
| Remain the same | 52 | 45 | 37 | 38 | 35 | 31 |
| Decrease | 30 | 39 | 33 | 19 | 24 | 39 |

QUESTION 2

How would you describe your current cash balances, relative to your level of business activity?

| | Percentage of Respondents | | |
|--------------------------|---------------------------|---------------|---------------|
| | November 2010 | November 2009 | November 2008 |
| Higher than usual | 35 | 34 | 20 |
| At about the usual level | 43 | 36 | 49 |
| Lower than usual | 22 | 30 | 30 |

QUESTION 3

How do you expect to finance capital spending over the next twelve months?

| | Average Percentage of Expenditures | | |
|----------------------|------------------------------------|---------------|---------------|
| | November 2010 | November 2009 | November 2008 |
| Cash | 59 | 59 | 46 |
| Debt | 24 | 25 | 38 |
| Equity | 3 | 2 | 6 |
| Leasing of equipment | 13 | 13 | 11 |