November 2011

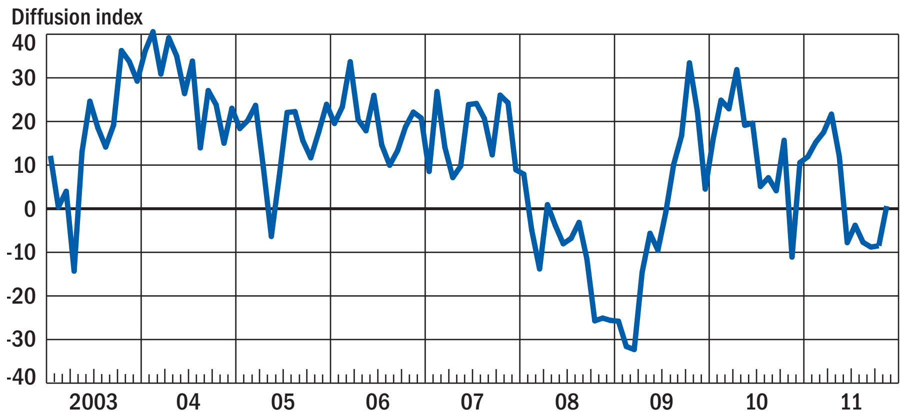
A publication of the Federal Reserve Bank of New York

Empire State Manufacturing Survey

The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers held steady in November. After a string of five consecutive months of negative readings, the general business conditions index rose nine points, to 0.6. While the new orders index edged down to -2.1, indicating that orders were a little lower, the shipments index rose to 9.4, indicating an increase in shipments. The inventories index fell to -12.2—a sign that inventory levels dropped. The prices paid index continued to move downward, reaching 18.3, its lowest level in nearly two years; the decline suggested that the pace of input price increases slowed further in November. The prices received index rose slightly, to 6.1, evidence that selling prices continued to increase. Employment indexes were mixed: employment levels were slightly lower and the average workweek slightly longer. Future indexes surged, indicating a widespread expectation that conditions would improve in the months ahead, with the future general business conditions index rising to its highest level since May.

Supplementary questions to the survey focused on cash holdings and debt financing; identical questions had been asked in the past few November surveys. Respondents reported a growing inclination to take on more debt: nearly 30 percent of manufacturing respondents—up from 18 percent in the November 2010 survey and 16 percent in the 2009 survey—said that they expected debt levels to rise. Still, a sizable proportion—slightly more than a third—anticipated declines in debt levels. In response to a parallel question about cash holdings, 41 percent of manufacturers said that they expected these holdings to increase over the next year, while 23 percent expected them to decline—about the same percentages as in last year's survey. When asked how they would fund capital spending over the next twelve months, respondents reported that they planned to finance 56 percent, on average, with cash, and roughly 30 percent with debt—results that differed little from those in the 2010 and 2009 surveys.

General Business Conditions
Seasonally adjusted



Business Activity Holds Steady

The general business conditions index rose nine points to a level of 0.6, the first positive reading since May and a sign that conditions held steady in November for New York manufacturers after declining for

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the prior five months. Twenty-four percent of respondents indicated that conditions had improved over the month, while 23 percent indicated that conditions had worsened. The new orders index inched down to -2.1, suggesting that orders were slightly lower. The shipments index rose four points to 9.4, indicating that shipments climbed. The unfilled orders index remained negative for a fifth consecutive month, falling three points to -7.3. The delivery time index was zero, indicating that delivery times were unchanged. The inventories index fell three points to -12.2, suggesting that inventory levels declined at a slightly more rapid pace in November.

Input Price Increases Continue to Slow

Input price increases slowed noticeably over the month. The prices paid index fell four points to 18.3, resulting in a cumulative decline of more than fifty points in this index since it reached a cyclical peak in May. The prices received index inched upward two points to 6.1, indicating that selling prices climbed at a slightly more rapid pace than in October. Employment indexes were mixed, showing a slight decrease in employment levels and a slight increase in the length of the average workweek. The index for number of employees fell to -3.7, while the average workweek index climbed to 2.4.

Future Indexes Surge

The future general business conditions index shot up thirty-two points to 39.0, reaching its highest level since May, with almost half of the respondents expecting conditions to improve over the next six months. The future new orders index climbed twenty-three points to 35.4, and the future shipments index rose nineteen points to 36.6. The future inventories index rose above zero to 2.4, indicating that inventory levels are expected to rise slightly. The future prices paid index inched down to 36.6, while the future prices received index rose several points to 25.6. Future employment indexes were positive and higher than last month, suggesting that employment levels and hours worked are expected to rise. The capital expenditures index rose eighteen points to 25.6, and the technology spending index rose eleven points to 12.2.■

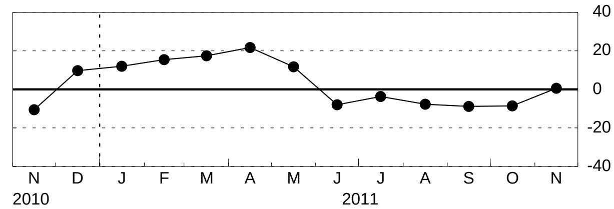
Current Indicators

Change from Preceding Month

General Business Conditions

	Higher	Same	Lower	Index
Oct	17.05	57.41	25.53	-8.48
Nov	23.53	53.54	22.93	0.61

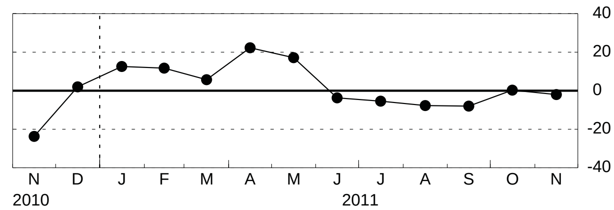
General Business Conditions - Diffusion Index



New Orders

	Higher	Same	Lower	Index
Oct	31.52	37.13	31.36	0.16
Nov	24.33	49.26	26.41	-2.07

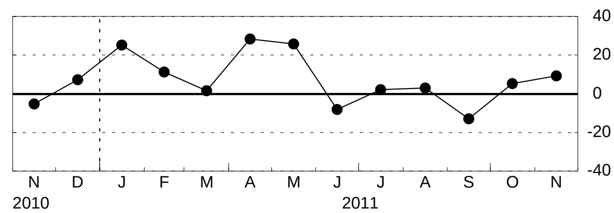
New Orders - Diffusion Index



Shipments

	Higher	Same	Lower	Index
Oct	34.71	35.90	29.39	5.33
Nov	25.31	58.82	15.88	9.43

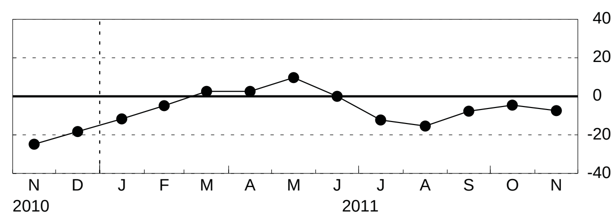
Shipments - Diffusion Index



Unfilled Orders

	Higher	Same	Lower	Index
Oct	13.48	68.54	17.98	-4.49
Nov	13.41	65.85	20.73	-7.32

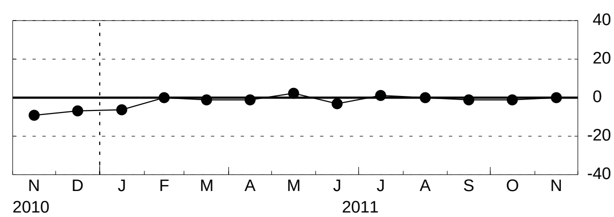
Unfilled Orders - Diffusion Index



Delivery Time

	Higher	Same	Lower	Index
Oct	6.74	85.39	7.87	-1.12
Nov	8.54	82.93	8.54	0.00

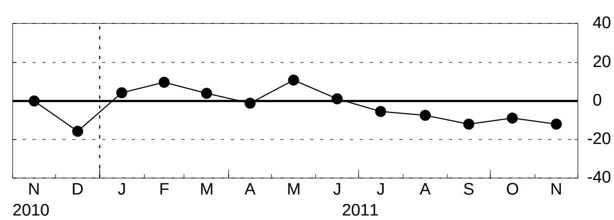
Delivery Time - Diffusion Index



Inventories

	Higher	Same	Lower	Index
Oct	20.22	50.56	29.21	-8.99
Nov	15.85	56.10	28.05	-12.20

Inventories - Diffusion Index

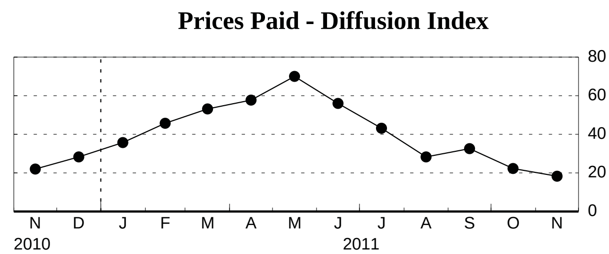


Current Indicators, *continued*

Change from Preceding Month

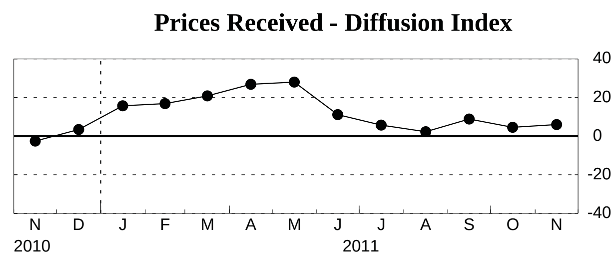
Prices Paid

	Higher	Same	Lower	Index
Oct	29.21	64.04	6.74	22.47
Nov	26.83	64.63	8.54	18.29



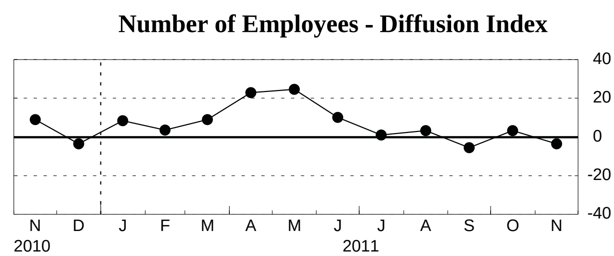
Prices Received

	Higher	Same	Lower	Index
Oct	12.36	79.78	7.87	4.49
Nov	18.29	69.51	12.20	6.10



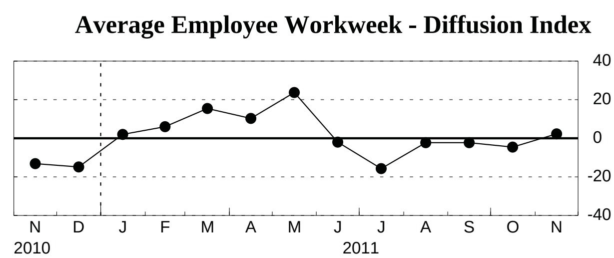
Number of Employees

	Higher	Same	Lower	Index
Oct	21.35	60.67	17.98	3.37
Nov	12.20	71.95	15.85	-3.66



Average Employee Workweek

	Higher	Same	Lower	Index
Oct	13.48	68.54	17.98	-4.49
Nov	10.98	80.49	8.54	2.44



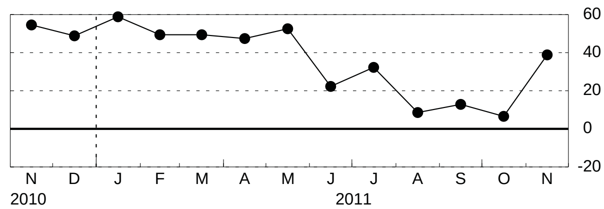
Forward-Looking Indicators

Expectations Six Months Ahead

General Business Conditions

	Higher	Same	Lower	Index
Oct	31.46	43.82	24.72	6.74
Nov	48.78	41.46	9.76	39.02

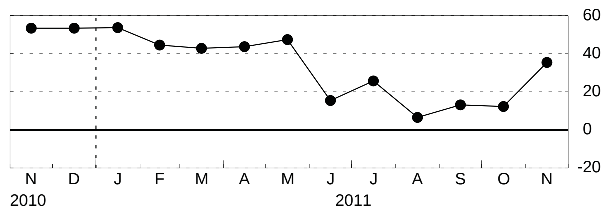
General Business Conditions - Diffusion Index



New Orders

	Higher	Same	Lower	Index
Oct	35.96	40.45	23.60	12.36
Nov	48.78	37.80	13.41	35.37

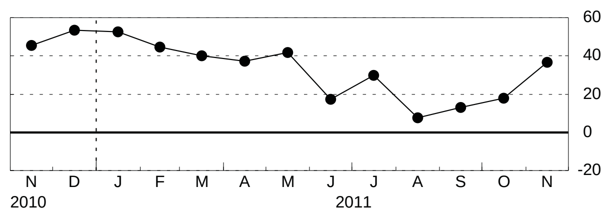
New Orders - Diffusion Index



Shipments

	Higher	Same	Lower	Index
Oct	38.20	41.57	20.22	17.98
Nov	48.78	39.02	12.20	36.59

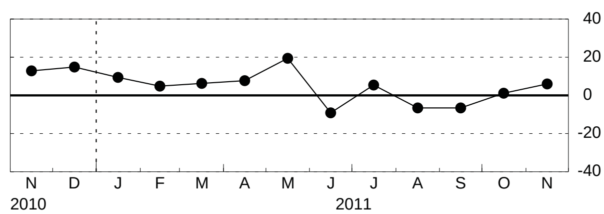
Shipments - Diffusion Index



Unfilled Orders

	Higher	Same	Lower	Index
Oct	17.98	65.17	16.85	1.12
Nov	17.07	71.95	10.98	6.10

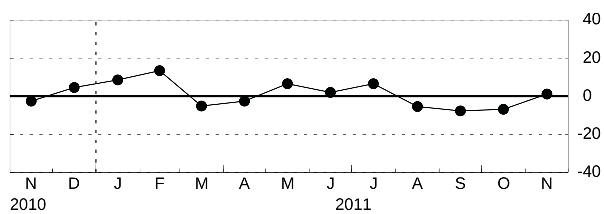
Unfilled Orders - Diffusion Index



Delivery Time

	Higher	Same	Lower	Index
Oct	5.62	82.02	12.36	-6.74
Nov	10.98	79.27	9.76	1.22

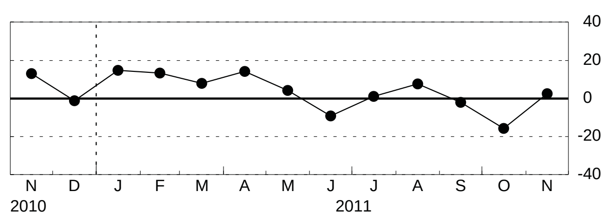
Delivery Time - Diffusion Index



Inventories

	Higher	Same	Lower	Index
Oct	12.36	59.55	28.09	-15.73
Nov	24.39	53.66	21.95	2.44

Inventories - Diffusion Index



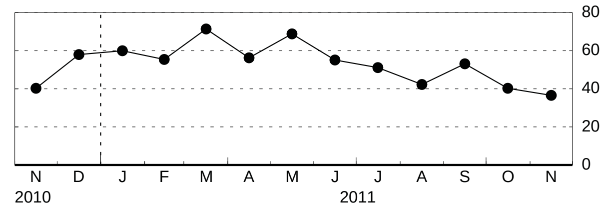
Forward-Looking Indicators, *continued*

Expectations Six Months Ahead

Prices Paid

	Higher	Same	Lower	Index
Oct	47.19	46.07	6.74	40.45
Nov	42.68	51.22	6.10	36.59

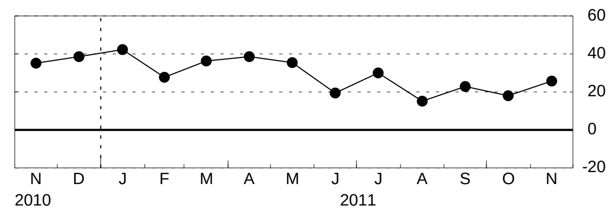
Prices Paid - Diffusion Index



Prices Received

	Higher	Same	Lower	Index
Oct	28.09	61.80	10.11	17.98
Nov	35.37	54.88	9.76	25.61

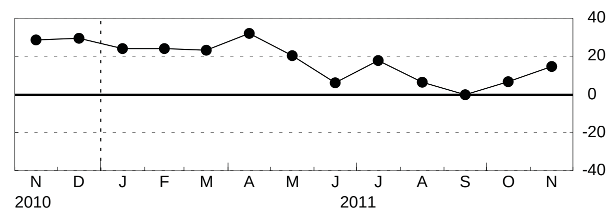
Prices Received - Diffusion Index



Number of Employees

	Higher	Same	Lower	Index
Oct	23.60	59.55	16.85	6.74
Nov	28.05	58.54	13.41	14.63

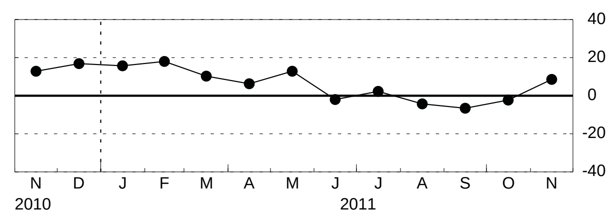
Number of Employees - Diffusion Index



Average Employee Workweek

	Higher	Same	Lower	Index
Oct	12.36	73.03	14.61	-2.25
Nov	18.29	71.95	9.76	8.54

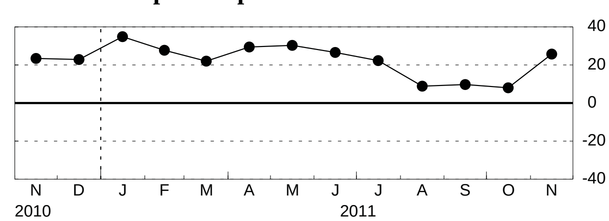
Average Employee Workweek - Diffusion Index



Capital Expenditures

	Higher	Same	Lower	Index
Oct	24.72	58.43	16.85	7.87
Nov	36.59	52.44	10.98	25.61

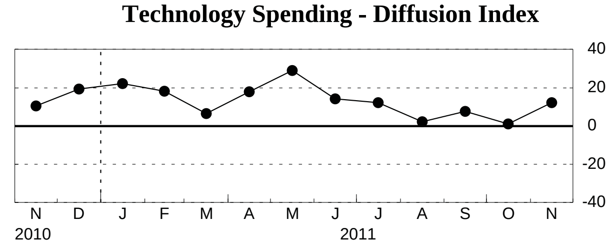
Capital Expenditures - Diffusion Index



Technology Spending

	Higher	Same	Lower	Index
Oct	14.61	71.91	13.48	1.12
Nov	18.29	75.61	6.10	12.20

Technology Spending - Diffusion Index



Note: All data are seasonally adjusted.

Supplemental Report:

More Firms Than a Year Ago Expect Debt Levels To Rise

The supplementary questions to the November 2011 *Empire State Manufacturing Survey* focused on cash holdings and debt financing; the same questions had been posed in the November surveys in 2010 and earlier years (see table). Asked about expected changes in their outstanding debt in the year ahead, manufacturers reported a growing inclination to take on more debt: nearly 30 percent of manufacturing respondents—up from 18 percent in the November 2010 survey and 16 percent in the 2009 survey—said that they expected debt levels to rise. Thirty-four percent anticipated declines in debt levels, up slightly from 30 percent in last November's survey but down from 39 percent in the 2009 survey.

In the current survey, 41 percent of manufacturers expected cash holdings to increase over the next year, while 23 percent expected them to decline. This finding is not substantially different from the results of the 2010 or 2009 surveys; however, it contrasts markedly with the results of the November 2008 survey, which showed that more respondents had expected cash holdings to decline than rise. In response to a related question about *current* cash holdings, 34 percent of firms—about the same proportion as in last year's survey—said that they were currently holding higher than usual (excess) cash balances. Roughly a third of firms, up from 22 percent in last November's survey, indicated that their cash balances were lower than usual.

When asked how they planned to finance capital expenditures over the next twelve months, manufacturers gave a breakdown of their funding similar to that in last November's survey. On average, firms planned to finance 56 percent of capital outlays with cash—a slightly smaller share than in the 2010 and 2009 surveys but up considerably from 46 percent in the 2008 survey. They expected to finance roughly 30 percent of their expenditures with debt, just 2 percent with equity, and 12 percent through the leasing, rather than the purchase, of equipment. All of these shares are fairly close to those in the 2010 and 2009 surveys. Prior to that, the use of debt to finance capital spending was almost 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 2011	November 2010	November 2009	November 2011	November 2010	November 2009
Increase	29	18	16	41	42	41
Remain the same	37	52	45	35	38	35
Decrease	34	30	39	23	19	24

QUESTION 2

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

	Percentage of Respondents		
	November 2011	November 2010	November 2009
Higher than usual	34	35	34
At about the usual level	33	43	36
Lower than usual	33	22	30

QUESTION 3

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

	Average Percentage of Expenditures		
	November 2011	November 2010	November 2009
Cash	56	59	59
Debt	30	24	25
Equity	2	3	2
Leasing of equipment	12	13	13