

October 2006

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Empire State Manufacturing Survey



Summary

The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers improved at an accelerated pace in October. The general business conditions index rose 9 points, to 22.9. The new orders index slipped for a second consecutive month but remained positive, while the shipments index continued to climb, reaching 22.5. The unfilled orders index dipped slightly below zero. The prices paid index eased considerably, falling to its lowest level in more than a year, while the prices received index rose marginally. Employment indexes were positive. Future indexes generally remained positive, suggesting that manufacturers expect business activity to expand further. However, a number of these indexes slipped to relatively low levels, a sign that the level of optimism about conditions six months ahead has declined.

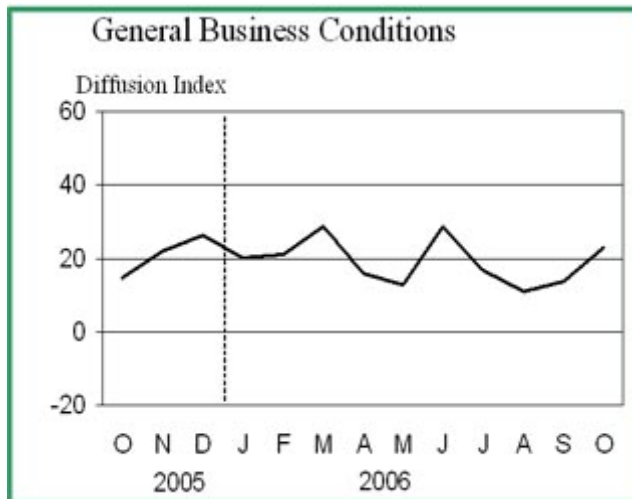
As part of this month's survey, manufacturers were asked a series of questions about their capital spending plans for 2007 (see table on page 2). Almost 45 percent of responding firms expected to invest more in capital in 2007 than in 2006, while slightly more than a fifth planned to reduce overall capital spending. Asked to detail their spending plans by category of capital, manufacturers indicated that they planned to boost investment in equipment—especially non-computer-related equipment—in 2007 but to maintain spending on structures at about 2006 levels. The most widely cited contributor to *increased* capital spending was a need for labor-saving equipment, closely followed by strong sales trends. The most widely cited contributor to *reduced* capital spending was a return to more normal levels of investment in 2007 following unusually high levels in 2006.

Activity Expands at an Accelerated Pace

The general business conditions index rose 9 points to 22.9, its highest level since June. Thirty-eight percent of respondents said that conditions had improved in October, while 15 percent said that conditions had worsened. The new orders index remained positive but fell 2 points to 11.8, suggesting that the pace of increase in new orders slowed marginally this month. The shipments index rose for a third consecutive month, reaching 22.5. The unfilled orders index dipped slightly below zero, to -1.5. The delivery time index fell below zero for the first time in nearly a year, an indication that delivery times shortened in October. The inventories index climbed for a third consecutive month, registering just above zero for its first positive reading since May.

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Prices Paid Index Drops Markedly

The prices paid index fell appreciably and, though still positive, hit its lowest level in more than a year. With 34 percent of respondents reporting a rise in prices and 3 percent reporting a decline in prices, the index dropped 10 points, to 30.8. In contrast, the prices received index rose marginally, to 17.5. Employment indexes were positive but moved in opposite directions. The number of employees index rose 7 points, to 19.4, its highest level in several months, with 31 percent of respondents reporting an increase in the number of employees. The average workweek index dipped 8 points, to 14.4.

Level of Optimism Declines

Future indexes generally remained positive, but respondents' level of optimism fell in October. The future general business conditions index declined 5 points to 30.2, with 47 percent of respondents expecting conditions to improve over the next six months and 17 percent expecting conditions to worsen. The future new orders and shipments indexes posted slightly steeper declines. The future prices paid index, like the current prices paid index, fell sharply, to 39.5, its lowest level in more than a year. The future prices received index fell 10 points to 26.9. Future employment indexes were positive. After three months of increases, the capital expenditures index fell several points, but remained staunchly positive at 30.3. The technology spending index also dipped, to 17.7.

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.

Firms Plan to Invest More in Equipment, Maintain Spending on Structures in 2007

In a series of supplementary questions, manufacturers were asked about their capital spending plans for 2007 relative to their actual spending for 2006 (see table). Almost 45 percent of the firms surveyed planned to boost capital spending in 2007, while 21 percent planned reductions. Responding to questions about particular categories of capital spending, manufacturers, on balance, indicated that they expected to increase investment in equipment—especially non-computer-related equipment—in 2007 but to maintain spending on structures at roughly the same level as in 2006. The survey responses also pointed to a slight increase in spending on computer hardware and little change in software expenditures.

Respondents were also asked about the extent to which various factors contributed positively or negatively to their planned changes in capital spending. Roughly 60 percent of those surveyed cited a *need for labor-saving equipment* as a factor prompting *increased* spending, while 56 percent cited (strong) *sales trends* as a positive contributor. Also contributing positively, though less widely cited, were *long-term (predetermined) investment schedules* and *need for energy-saving equipment*. The most widely cited factor prompting a *reduction* in capital spending in 2007 was *unusually high levels in 2006*—an indication that manufacturers plan a return to more normal levels of investment. In addition, a number of respondents wrote in *foreign competition* as a negative contributor.

October 2006 Survey Results Responses to Supplementary Questions

1) To what extent do you expect your firm's spending on new plant and equipment to be higher or lower in 2007 than in 2006? How do you expect each of these capital spending categories to change?

	<i>Percentage of Respondents</i>	
	Planning Lower Spending in 2007	Planning Higher Spending in 2007
Overall	20.8	44.2
Structures	24.6	24.6
Non Computer-Related Equipment	20.2	47.9
Computers and Related Hardware	16.7	30.8
Software	18.5	20.2

2) How are each of the following factors contributing to changes in your capital spending budget from 2006 to 2007?

	<i>Percentage of Respondents</i>	
	Indicating Downward Effect	Indicating Upward Effect
Need for labor-saving equipment	7.6	59.7
Sales / demand trends for your products	16.1	55.9
Long-term plans / investment schedule	12.7	45.8
Need for energy-saving equipment	7.6	42.9
Firm's cash flow / balance sheet position	16.0	31.1
Tax / regulatory considerations	12.7	16.9
Cost or availability of external finance	12.0	12.0
Unusually High/Low Capital Spending in '06	22.2	16.2

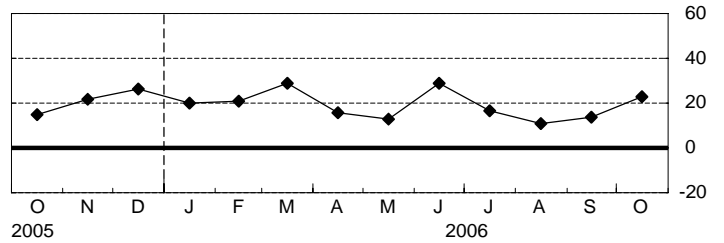
Empire State Manufacturing Survey, October 2006

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	30.51	52.82	16.67	13.84
Oct	37.93	47.06	15.01	22.92

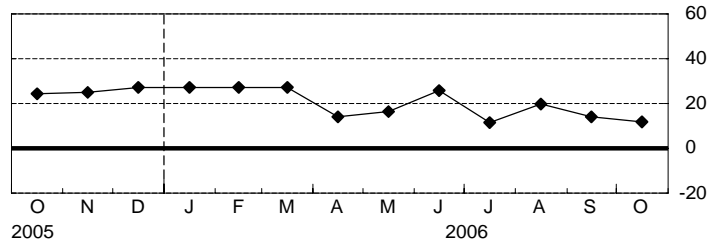
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	34.03	45.90	20.07	13.96
Oct	34.01	43.73	22.26	11.75

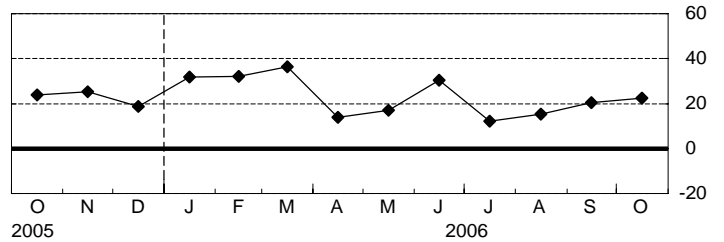
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	40.08	40.39	19.53	20.56
Oct	40.24	42.05	17.71	22.54

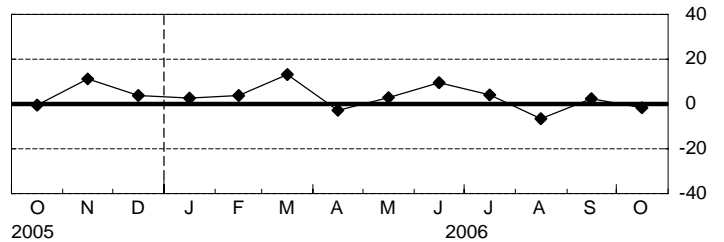
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	17.55	67.17	15.29	2.26
Oct	15.48	67.52	16.99	-1.51

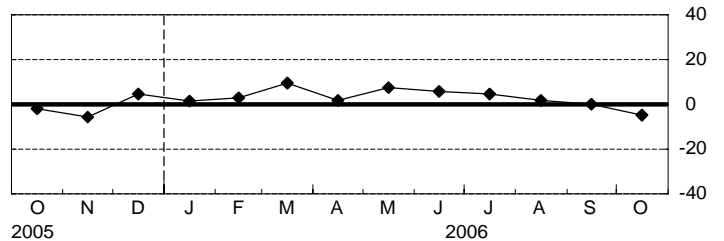
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	11.00	78.00	11.00	0.00
Oct	10.00	75.00	15.00	-5.00

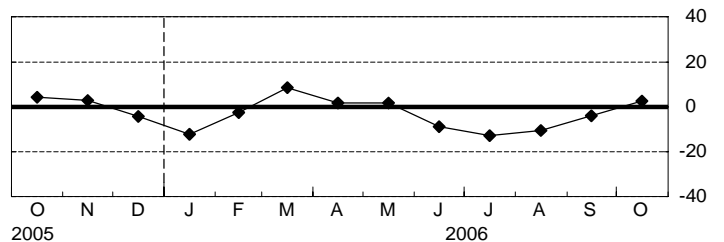
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	21.00	54.00	25.00	-4.00
Oct	27.50	47.50	25.00	2.50

Inventories - Diffusion Index



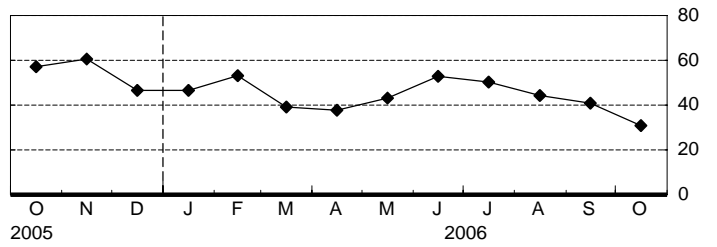
Empire State Manufacturing Survey, October 2006

Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	43.00	55.00	2.00	41.00
Oct	34.17	62.50	3.33	30.83

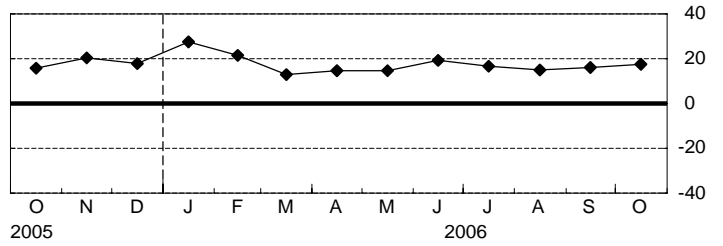
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	20.00	76.00	4.00	16.00
Oct	20.00	77.50	2.50	17.50

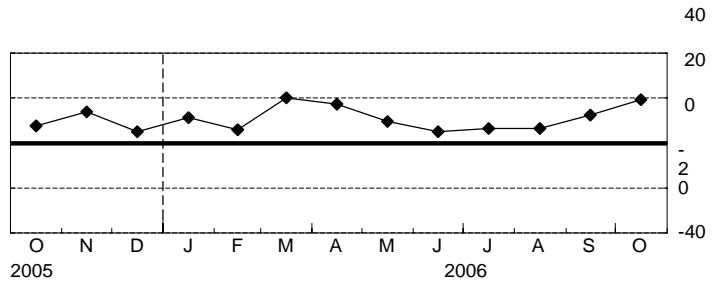
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	25.47	61.53	13.00	12.47
Oct	31.06	57.27	11.67	19.39

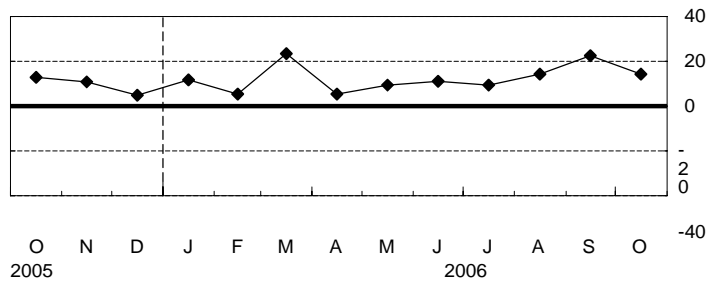
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	29.59	63.41	7.00	22.59
Oct	25.27	63.89	10.83	14.44

Average Employee Workweek - Diffusion Index

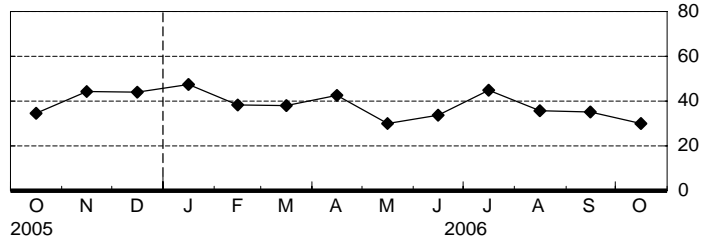


Empire State Manufacturing Survey, October 2006, Expectations Six Months Ahead Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	49.00	37.20	13.80	35.20
Oct	47.01	36.14	16.84	30.17

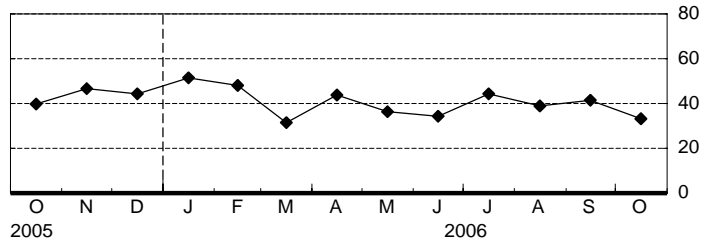
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	54.75	31.76	13.49	41.27
Oct	50.31	32.44	17.26	33.05

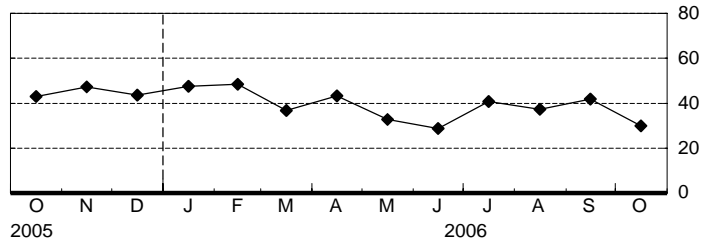
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	55.55	30.68	13.77	41.78
Oct	47.37	35.26	17.37	30.00

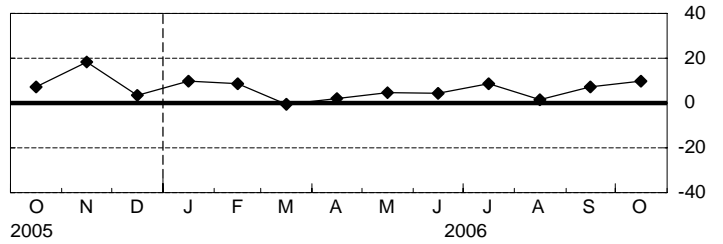
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	15.92	75.31	8.77	7.14
Oct	20.20	69.23	10.57	9.64

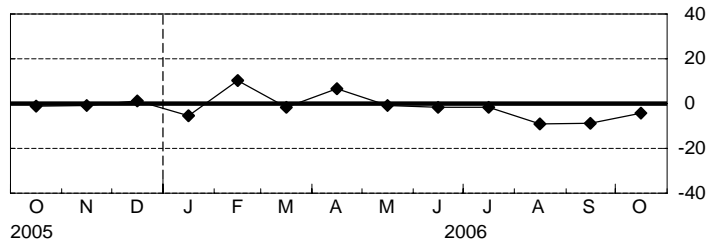
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	6.00	79.00	15.00	-9.00
Oct	6.72	82.35	10.92	-4.20

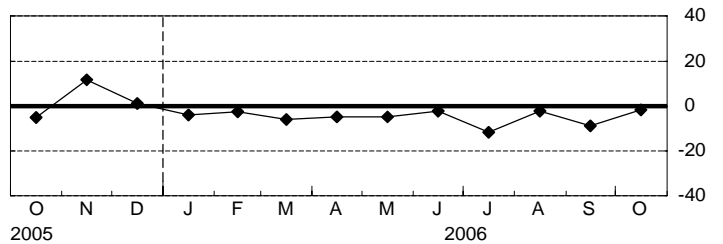
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	23.00	45.00	32.00	-9.00
Oct	23.53	51.26	25.21	-1.68

Inventories - Diffusion Index

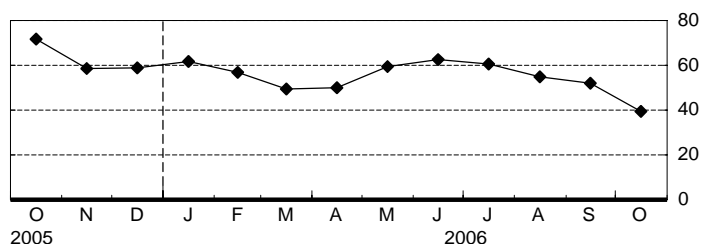


Empire State Manufacturing Survey, October 2006, Expectations Six Months Ahead Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	56.00	40.00	4.00	52.00
Oct	46.22	47.06	6.72	39.50

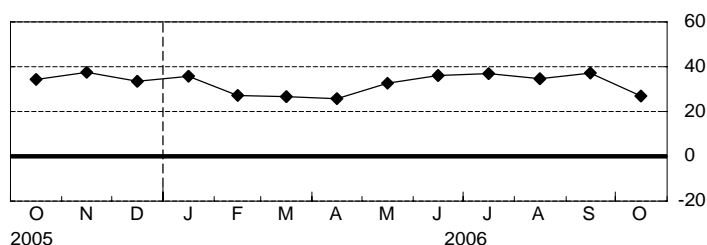
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	42.00	53.00	5.00	37.00
Oct	35.29	56.30	8.40	26.89

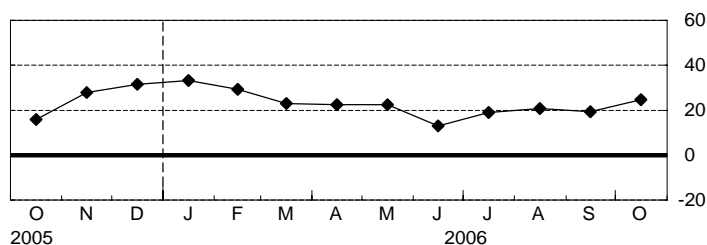
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	32.00	55.34	12.66	19.34
Oct	35.29	54.27	10.44	24.86

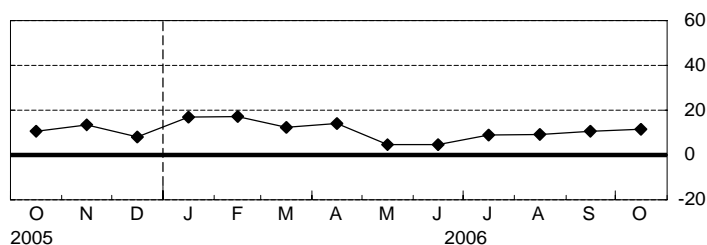
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	21.07	68.42	10.51	10.55
Oct	19.63	72.28	8.09	11.55

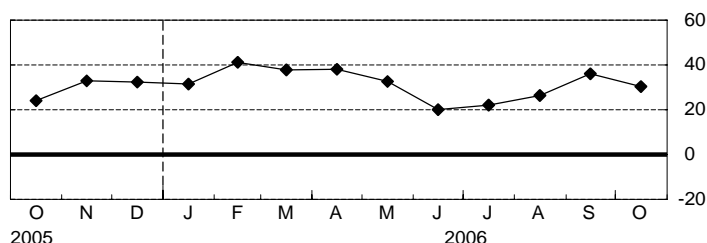
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	42.00	52.00	6.00	36.00
Oct	40.34	49.58	10.08	30.25

Capital Expenditures - Diffusion Index



Technology Spending

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Sep	27.00	68.00	5.00	22.00
Oct	26.89	63.87	9.24	17.65

Technology Spending - Diffusion Index

