

Empire State Manufacturing Survey

The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers continued to improve in February. The general business conditions index rose 3.5 points to 15.4. The new orders index edged down just slightly, to 11.8. The shipments index retreated 14 points, reversing much of January's 18-point surge, but remained positive at 11.3. The inventories index continued to climb from its December low, reaching its highest level since April. The index for number of employees fell, but the average workweek measure moved up. The prices paid index climbed to a two-and-a-half-year high in February, but the measure for prices received was little changed, suggesting some pressure on profit margins. The

forward-looking indexes continued to signal widespread optimism, though to a somewhat lesser degree than in January. Indexes for expected prices, both paid and received, declined moderately, after reaching multiyear highs last month.

In a series of supplementary questions, respondents were asked about their capital spending plans for 2011 relative to their actual spending in 2010. Respondents, on balance, reported that they planned to spend more this year than last on new equipment—particularly non-computer-related equipment. The median respondent planned to spend \$450,000 overall, up from \$292,500 in 2010—a 54 percent increase. When manufacturers were

asked what factors contributed the most to their plans to boost capital spending in 2011, the most frequent response was a need for labor-saving equipment, followed closely by favorable trends in sales of, and demand for, firms' products. A substantial proportion of respondents also mentioned long-term investment schedules and a need for energy-saving equipment.

Business Activity Continues to Expand

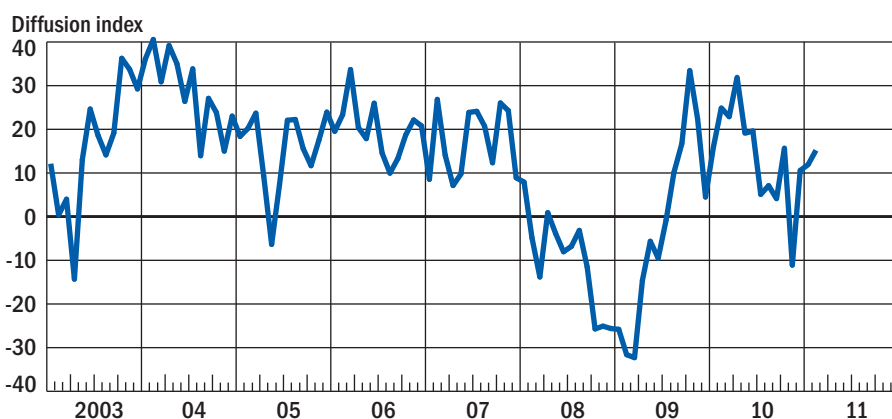
In February, the general business conditions index rose 3.5 points to 15.4—its third consecutive positive reading and its highest level since June. Thirty-six percent of respondents reported that conditions had improved over the month, while 21 percent reported that conditions had worsened. The new orders index dipped 0.6 points to 11.8, and the shipments index, after soaring 18 points in January, declined 14.1 points to 11.3. The delivery time index climbed 6.3 points to zero. The inventories index rose nearly 5½ points in February, to 9.6, its highest level since April.

Input Prices Accelerate

Respondents reported increasingly widespread hikes in input prices, but more subdued increases in selling prices. The prices paid

General Business Conditions

Seasonally adjusted



Continued

Continued from page 1

measure surged 10 points—its third consecutive monthly gain—to reach 45.8, its highest level since August 2008. Nearly half of those surveyed reported price increases, while just 2 percent reported declines. The index for prices received, by contrast, moved up only slightly, to 16.9, with 24 percent of manufacturers citing higher prices and 7 percent noting lower prices. Employment indexes were mixed in February: the index for number of employees fell 4.8 points to 3.6, reversing part of January's 12-point gain; however, the average workweek index rose nearly 4 points to 6.0—roughly the level it held at the end of last summer.

Ongoing Optimism about the Near-Term Outlook

Although most of the forward-looking indexes retreated somewhat in February, they remained at relatively high levels, suggesting that manufacturers continued to be broadly optimistic about the six-month outlook. The expected general business conditions index slipped 9.6 points to 49.4, reversing virtually all of January's 10-point gain; 60 percent of respondents expected conditions to be better in six months. Similarly, the future new orders and shipments indexes dropped 9 and 8 points, respectively, but remained at high levels. The measure for expected inventories edged down from a

record high, dipping roughly 1½ points to 13.3. Future price indexes declined, after rising to their highest levels in more than two years in January. A third of respondents indicated plans to raise prices in the next six months, while considerably more than half reported that they expected input prices to rise. Future employment measures, little changed this month, suggested that respondents intended to hire, on net, in the months ahead. The capital expenditures index retreated by 7 points to 27.7 in February, but it remained somewhat above the levels seen throughout the second half of 2010. The technology spending index fell by 4 points, to 18.1. ■

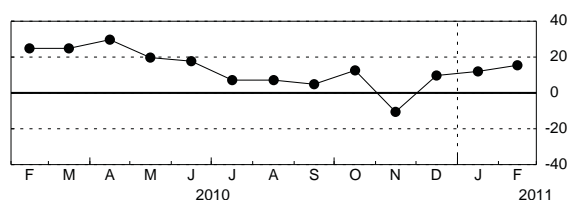
Current Indicators

Change from Preceding Month

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	32.72	46.49	20.80	11.92
Feb	35.95	43.54	20.51	15.43

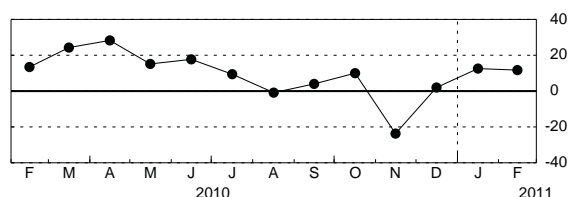
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	35.33	41.73	22.94	12.39
Feb	32.95	45.90	21.15	11.80

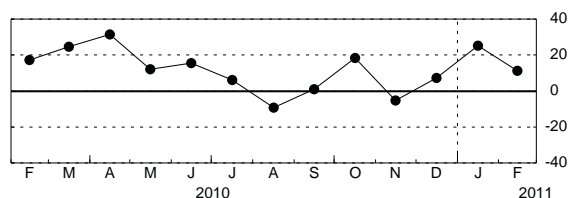
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	40.56	44.26	15.17	25.39
Feb	36.45	38.41	25.14	11.31

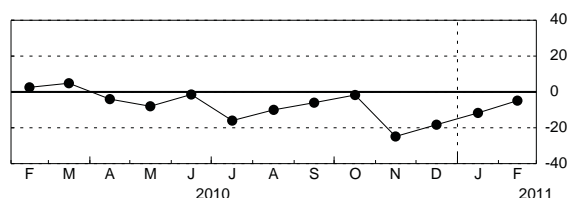
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	10.53	67.37	22.11	-11.58
Feb	15.66	63.86	20.48	-4.82

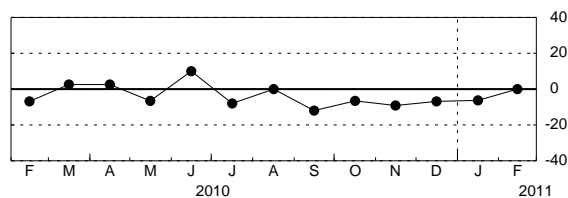
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	5.26	83.16	11.58	-6.32
Feb	9.64	80.72	9.64	0.00

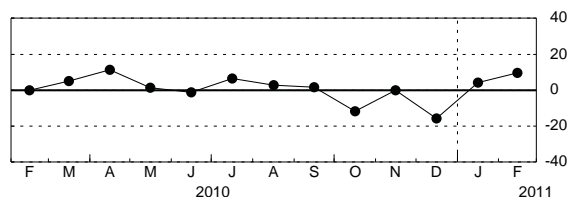
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	23.16	57.89	18.95	4.21
Feb	26.51	56.63	16.87	9.64

Inventories - Diffusion Index



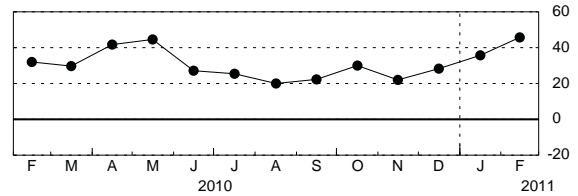
Current Indicators, *continued*

Change from Preceding Month

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	41.05	53.68	5.26	35.79
Feb	48.19	49.40	2.41	45.78

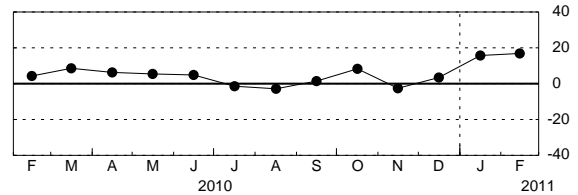
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	20.00	75.79	4.21	15.79
Feb	24.10	68.67	7.23	16.87

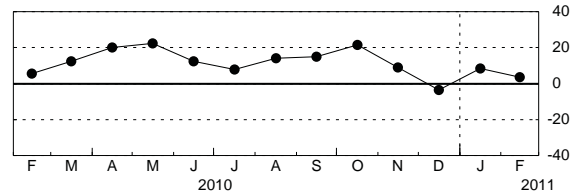
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	23.16	62.11	14.74	8.42
Feb	16.87	69.88	13.25	3.61

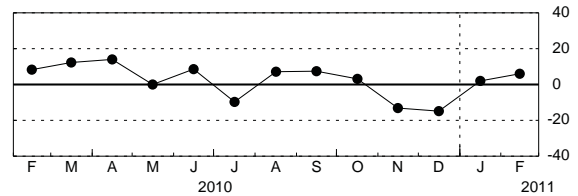
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	21.05	60.00	18.95	2.11
Feb	15.66	74.70	9.64	6.02

Average Employee Workweek - Diffusion Index



Note: All data are seasonally adjusted.

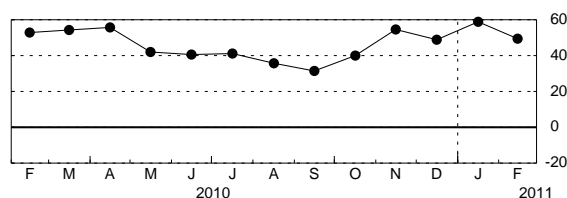
Forward-Looking Indicators

Expectations Six Months Ahead

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	61.05	36.84	2.11	58.95
Feb	60.24	28.92	10.84	49.40

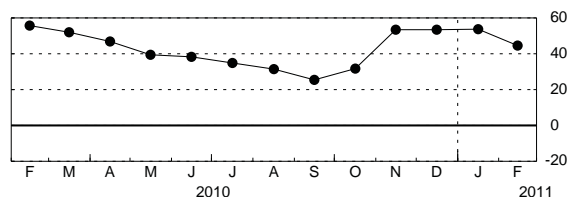
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	57.89	37.89	4.21	53.68
Feb	55.42	33.73	10.84	44.58

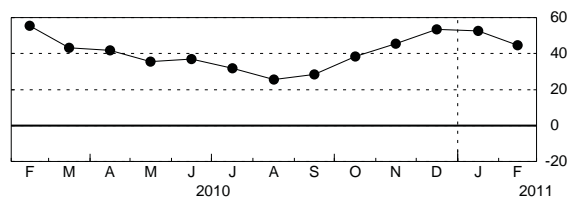
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	57.89	36.84	5.26	52.63
Feb	55.42	33.73	10.84	44.58

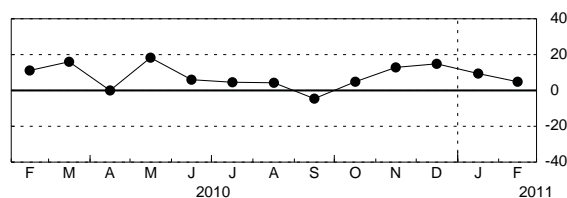
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	23.16	63.16	13.68	9.47
Feb	18.07	68.67	13.25	4.82

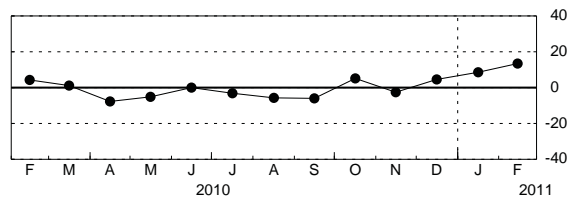
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	15.79	76.84	7.37	8.42
Feb	16.87	79.52	3.61	13.25

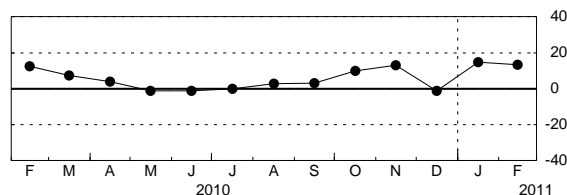
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	28.42	57.89	13.68	14.74
Feb	28.92	55.42	15.66	13.25

Inventories - Diffusion Index



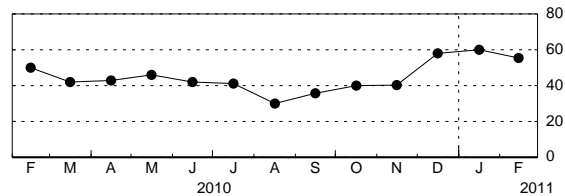
Forward-Looking Indicators, *continued*

Expectations Six Months Ahead

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	66.32	27.37	6.32	60.00
Feb	57.83	39.76	2.41	55.42

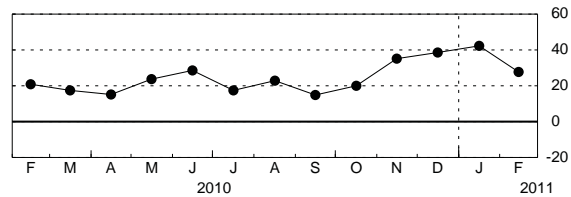
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	47.37	47.37	5.26	42.11
Feb	33.73	60.24	6.02	27.71

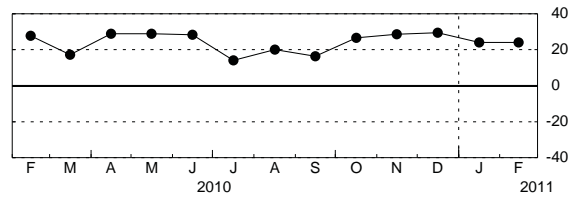
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	35.79	52.63	11.58	24.21
Feb	32.53	59.04	8.43	24.10

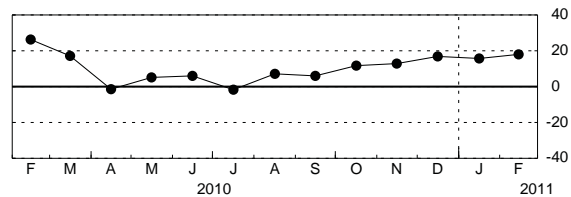
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	25.26	65.26	9.47	15.79
Feb	21.69	74.70	3.61	18.07

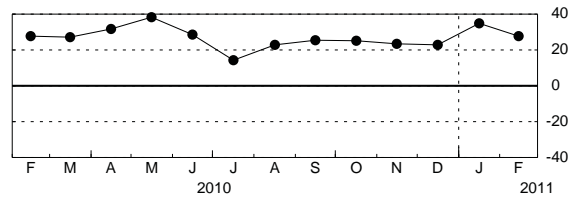
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	43.16	48.42	8.42	34.74
Feb	33.73	60.24	6.02	27.71

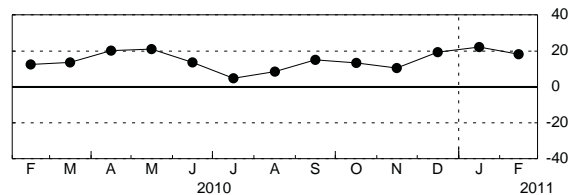
Capital Expenditures - Diffusion Index



Technology Spending

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Jan	30.53	61.05	8.42	22.11
Feb	28.92	60.24	10.84	18.07

Technology Spending - Diffusion Index



Note: All data are seasonally adjusted.

Supplemental Report:

Firms Plan to Spend More on Equipment, Less on Structures in 2011

In a series of supplementary questions to the February 2011 *Empire State Manufacturing Survey*, manufacturers were asked about their capital spending plans for 2011 relative to their actual spending for 2010, both overall and for a few broad categories of capital. Parallel questions had been asked in the June 2010 and earlier surveys (see table). In the current survey, substantially more responding firms planned increases (47 percent) than reductions (26 percent) in overall capital spending in 2011. These results are broadly similar to those from last year's survey; however, they contrast markedly with the survey results from June 2009, when far more respondents had reported decreases (56 percent) than increases (20 percent).

In the current survey, as in last June's survey, firms' capital spending plans varied greatly across the different categories. The most widespread increases were reported for non-computer-related equipment:

45 percent of manufacturers planned to spend more in 2011 than in 2010, while just 16 percent planned to spend less. On balance, respondents also reported that they planned to spend more on computers, related hardware, and software. In contrast, only 13 percent of those surveyed said they were budgeting more for structures in 2011 than in 2010, whereas 25 percent indicated that they would cut back on such investment. This finding is more negative than the corresponding result from last year's survey, which showed that firms planning reduced spending on structures outnumbered firms anticipating increased spending by only a narrow margin.

In a separate question, firms were asked about the extent to which various factors contributed to planned increases in capital spending. Considerably more than half of all respondents cited a need for labor-saving equipment as a factor supporting higher spending, and nearly half cited sales and demand trends. Also fairly high on the list

were long-term plans (investment schedules) and a need for energy-saving equipment. Roughly a third of respondents mentioned improved cash flow (balance sheet position) and tax or regulatory considerations—including last year's 100 percent bonus depreciation tax measure—as contributing positively. Respondents were also asked about factors holding back capital spending; however, none of the factors identified in the survey question were cited by even a quarter of the respondents.

The median projected level of capital spending for 2011 across all respondent firms was \$450,000, up from \$292,500 in 2010—a 54 percent increase. In last June's survey, the median level of capital spending had reportedly risen from roughly \$300,000 in 2009 to \$425,000 in 2010. (In comparing the median level projected for 2010 in last June's survey with the actual level for 2010 reported in the current survey, one should note that the numbers are based on somewhat different pools of respondent firms.) ■

Supplemental Report, *continued*

QUESTION 1

To what extent do you expect your firm's spending on new plant and equipment to be higher or lower in 2011 than in 2010? How do you expect each of these capital spending categories to change?

	February 2011 Survey		June 2010 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Planning Lower Spending in 2011	Planning Higher Spending in 2011	Planning Lower Spending in 2010	Planning Higher Spending in 2010
Total	25.9	46.9	25.3	45.6
Structures	25.0	12.5	23.8	18.8
Non-computer-related equipment	15.9	45.1	18.8	38.8
Computers and related hardware	14.6	29.3	13.8	35.0
Software	18.3	25.6	17.7	32.9

QUESTION 2

How are each of the following factors contributing to changes in your capital spending budget from 2010 to 2011?

	February 2011 Survey		June 2010 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Reporting Downward Effect in 2011	Reporting Upward Effect in 2011	Reporting Downward Effect in 2010	Reporting Upward Effect in 2010
Unusually high/low capital spending in 2010	22.2	17.3	17.9	29.5
Long-term plans/investment schedule	12.3	42.0	12.8	50.0
Sales/demand trends for your products	18.5	48.1	22.5	60.0
Need for labor-saving equipment	7.4	55.6	12.8	50.0
Need for energy-saving equipment	4.9	39.5	13.9	35.4
Cost or availability of external finance	16.0	13.6	11.5	15.4
Firm's cash flow/balance sheet position	21.3	35.0	20.3	32.9
Tax/regulatory considerations	16.0	33.3	14.3	27.3

QUESTION 3

Please indicate your best estimate of your total capital expenditures for last year (calendar year 2010) and the expected amount for this year (calendar year 2011).

	February 2011 Survey		June 2010 Survey	
	Current Year	Prior Year	Current Year	Prior Year
Average capital spending	\$3,482,154	\$2,869,449	\$4,314,949	\$3,386,417
Median capital spending	\$450,000	\$292,500	\$425,000	\$302,500