

April 2006

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Empire State Manufacturing

Survey



Summary

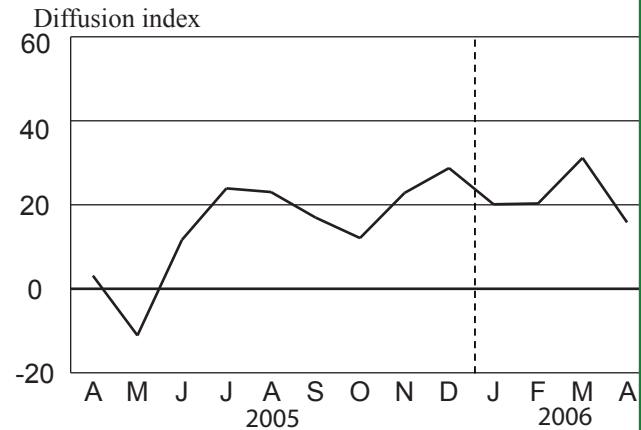
The Empire State Manufacturing Survey indicates that conditions for New York manufacturers continued to improve in April, but at a slower pace than in March. The general business conditions index fell 14 points, to 15.8. The new orders and shipments indexes fell significantly from their March levels but remained positive and consistent with an expansion in business activity, while the unfilled orders index dipped below zero. The delivery time index fell back close to zero after reaching a relatively high level last month. Price indexes held relatively steady and remained positive, reflecting continued increases in prices paid and prices received. Employment indexes also remained positive, an indication that employment is continuing to expand. Future activity indexes suggested that manufacturers expect conditions to improve further over the next six months.

Responding to a supplementary question in the April survey, manufacturers predicted that total compensation in their firms would rise 4 percent in the next four quarters—a percentage increase roughly matching that reported for the past year. Respondents also expected real sales (growth in sales revenue minus the change in selling prices) to expand almost 5 percent, up from 3.9 percent over the past year. These results would imply a modest decline in real unit labor costs—the cost to produce a fixed unit of output (growth in compensation minus growth in real sales). In responding to a separate question, nearly two-thirds of manufacturers reported that worker productivity had increased over the past four quarters; 85 percent expected productivity to grow in the year ahead.

Business Conditions Improve at a Slower Pace

The general business conditions index was positive in April but, at 15.8, was well below its March level of 29.0. Thirty-four percent of respondents reported that conditions had improved, while 18 percent reported that conditions had deteriorated, compared with 10 percent in March. The index was slightly below its average level of the past ten months. The indexes for new orders, shipments, and unfilled orders also dipped. The new orders index fell from 27.0 to 14.1, and the shipments index posted a larger decline, from 36.5 to 14.0. The unfilled orders index dropped below zero, reversing its rise to 13.2 in March. After reaching a record high last month, the delivery time index fell to 1.6; the share of respondents reporting longer delivery times slipped from 16 percent to 10 percent. The inventories index fell from 8.5 to 1.6.

General Business Conditions



Prices Continue to Increase

After falling last month, both price indexes were positive but little changed in April, indicating a steady rise in prices. The prices paid index fell slightly, to 37.9, with 42 percent of respondents reporting higher prices and 4 percent reporting lower prices. The prices received index climbed 2 points, to 14.5; 22 percent of respondents reported higher prices while 7 percent reported lower prices. Employment indexes were positive but lower than in March. The index for number of employees fell slightly, to 17.4, with 22 percent of respondents hiring more workers and 4 percent reducing employment. The average workweek index fell sharply from the record high set last month, but remained positive at 5.4.

Expectations Indexes Improve

Future activity indexes were positive and generally higher than in March—an indication that the business expansion is expected to continue over the next six months. The future general business conditions index increased from 38.1 to 42.3, with more than half of respondents expecting conditions to improve. The future new orders and shipments indexes were positive and higher than in March. The future delivery time index also advanced, reaching 6.5, while the future inventories index remained negative. Future price indexes were positive, suggesting that manufacturers expect prices to rise further. Future employment indexes remained positive. The capital expenditures index, at 37.9, reflected a clear expectation that capital spending will continue to rise. The technology spending index was also positive.

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 Little Change 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—how much, in terms of wages and salaries, it costs to produce a unit of output. Respondents reported that sales revenue, on average, had expanded 6.3 percent over the past four quarters—reflecting a 3.9 percent increase in output and a 2.4 percent rise in prices—while compensation had increased slightly more than 4 percent, leaving unit labor costs virtually unchanged (see table). Over the next four quarters, real sales were expected to accelerate slightly, rising 5 percent, on average, while compensation was again expected to increase 4 percent. These results imply that the average respondent expects unit labor costs (compensation growth minus real sales growth) to decline by 1 percent.

Respondents were also queried about past and future changes in worker productivity. In general, trends over the past four quarters were considered to be relatively favorable, and trends over the next four quarters were expected to be even more positive. Almost 29 percent of manufacturers reported that productivity had increased moderately or rapidly over the past four quarters; 39 percent expected the same for the year ahead (see table). Thirty-six percent reported slow growth over the past year, while 46 percent expected the same for the year ahead. By contrast, 35 percent of respondents reported flat or declining worker productivity over the past year, while only 15 percent expected such outcomes in the year ahead.

April 2006 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 from the first quarter of 2006 to the first quarter of 2007.

	Average Percentage Change	
	<i>Past 4 Quarters</i> <u>2005Q1-2006Q1</u>	<i>Next 4 Quarters</i> <u>2006Q1-2007Q1</u>
Total compensation	4.2	4.0
Total sales revenue	6.3	7.6
Selling prices for your products	2.4	2.6
<i>Imputed measures (differences in growth)</i>		
Real sales (sales revenue minus selling prices)	3.9	5.0
Unit labor costs (compensation minus real sales)	0.3	-1.0

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?

	Percentage of Respondents	
	<i>Past 4 Quarters</i> <u>2005Q1-2006Q1</u>	<i>Next 4 Quarters</i> <u>2006Q1-2007Q1</u>
<i>Reported Change in Productivity</i>		
Decline	7.6	1.7
Remain the same	27.7	13.6
Grow slowly	36.1	45.8
Grow moderately	26.9	37.3
Grow rapidly	1.7	1.7

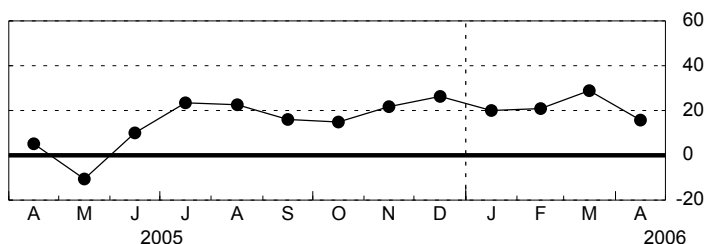
Empire State Manufacturing Survey, April 2006

Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	38.60	51.83	9.57	29.03
Apr	33.69	48.44	17.87	15.81

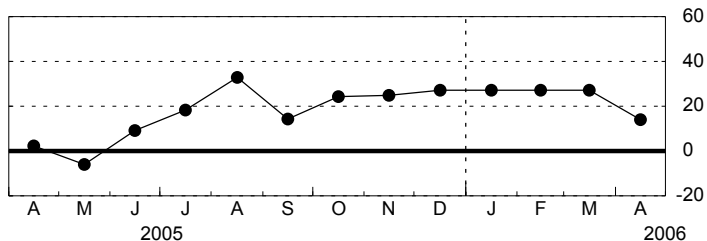
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	41.03	44.94	14.04	26.99
Apr	33.50	47.10	19.39	14.11

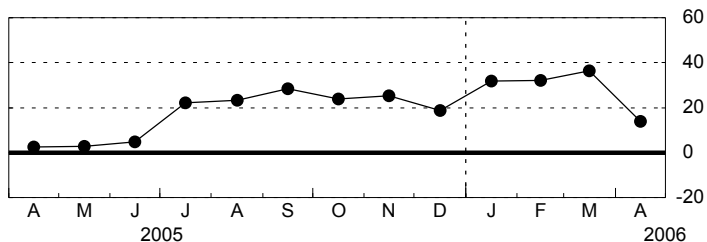
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	47.55	41.41	11.04	36.50
Apr	34.69	44.62	20.69	14.00

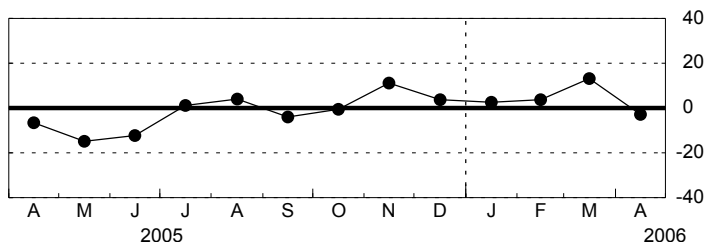
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	22.90	67.42	9.68	13.22
Apr	12.06	72.98	14.96	-2.90

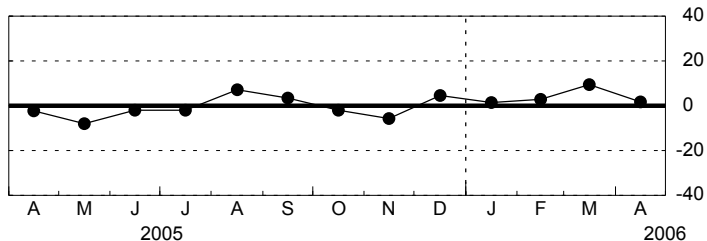
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	16.24	76.92	6.84	9.40
Apr	9.68	82.26	8.06	1.61

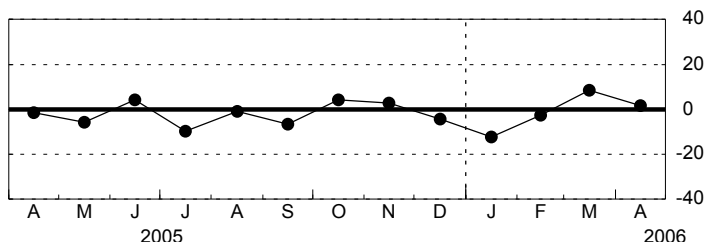
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	30.77	47.01	22.22	8.55
Apr	24.19	53.23	22.58	1.61

Inventories - Diffusion Index



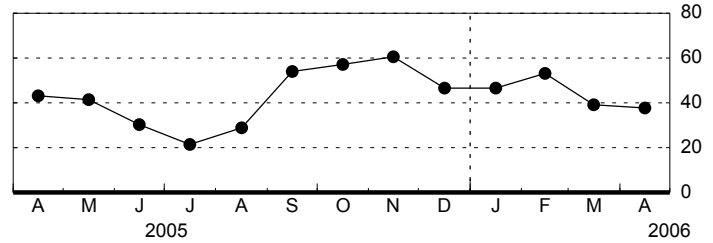
Empire State Manufacturing Survey, April 2006

Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	41.03	57.26	1.71	39.32
Apr	41.94	54.03	4.03	37.90

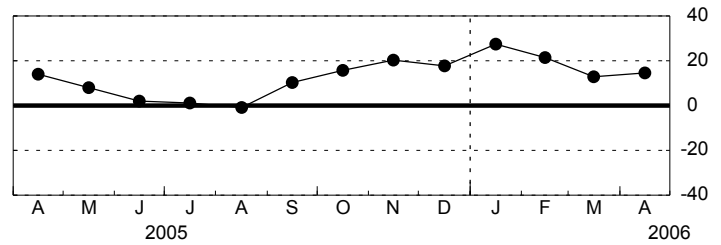
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	23.08	66.67	10.26	12.82
Apr	21.77	70.97	7.26	14.52

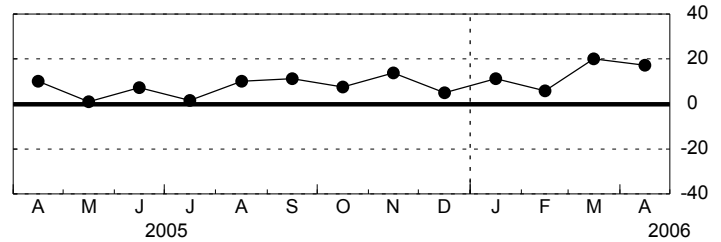
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	28.62	62.83	8.55	20.08
Apr	21.45	74.52	4.03	17.41

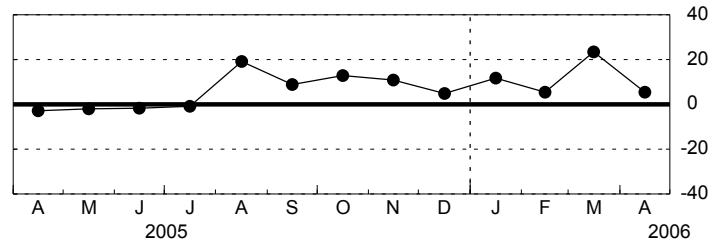
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	29.59	64.42	5.98	23.61
Apr	15.92	73.59	10.48	5.44

Average Employee Workweek - Diffusion Index

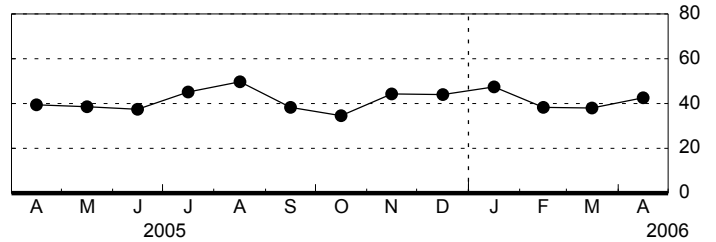


Empire State Manufacturing Survey, April 2006, Expectations Six Months Ahead Seasonally Adjusted

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	47.77	42.53	9.70	38.08
Apr	52.70	37.24	10.06	42.65

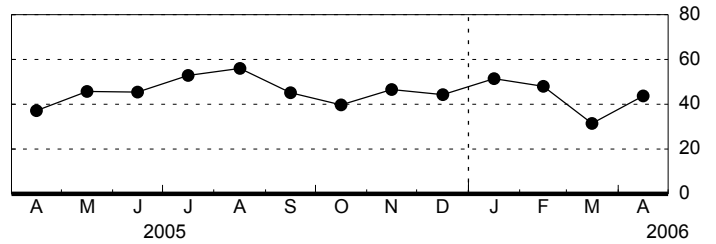
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	43.96	43.42	12.62	31.33
Apr	55.22	33.35	11.44	43.78

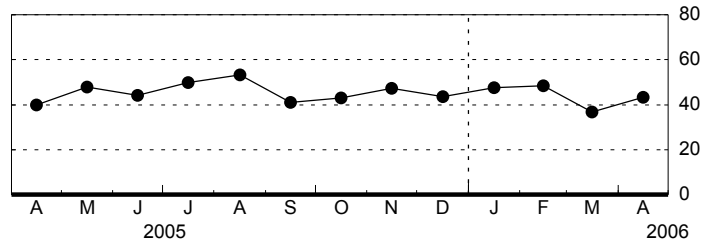
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	47.50	41.73	10.78	36.72
Apr	53.12	36.97	9.91	43.21

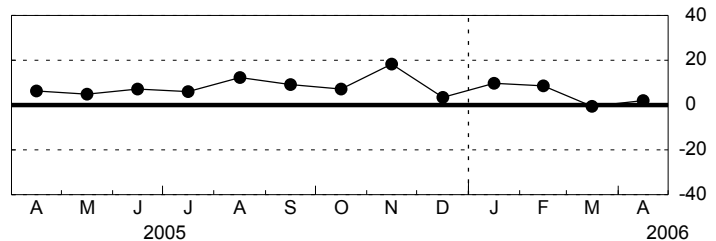
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	14.92	69.69	15.39	-0.47
Apr	17.30	67.36	15.34	1.96

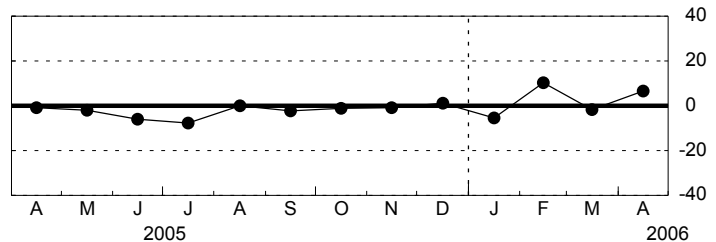
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	9.40	79.49	11.11	-1.71
Apr	11.29	83.87	4.84	6.45

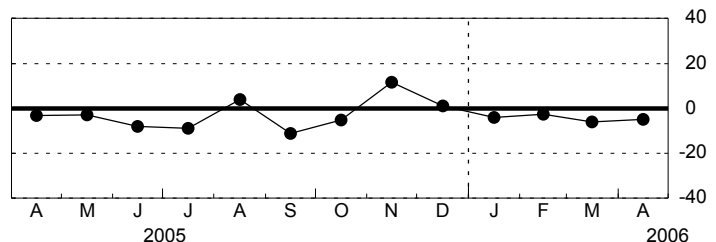
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	25.64	42.74	31.62	-5.98
Apr	23.39	48.39	28.23	-4.84

Inventories - Diffusion Index

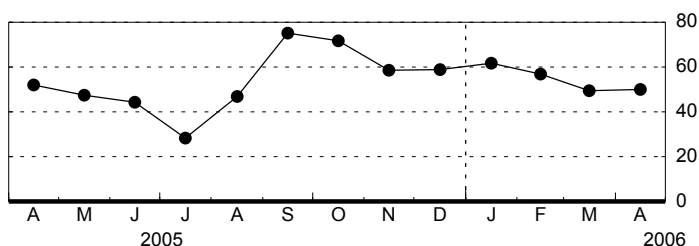


Empire State Manufacturing Survey, April 2006, Expectations Six Months Ahead Seasonally Adjusted

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	51.28	47.01	1.71	49.57
Apr	52.42	45.16	2.42	50.00

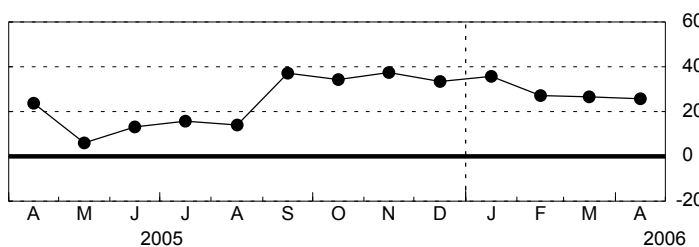
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	35.04	56.41	8.55	26.50
Apr	34.68	56.45	8.87	25.81

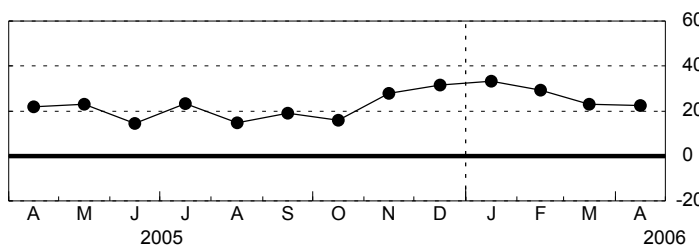
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	35.04	52.90	12.06	22.98
Apr	35.48	51.53	12.99	22.49

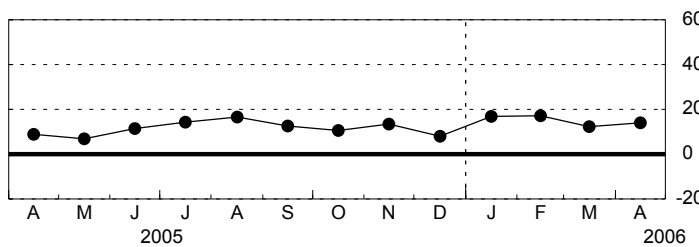
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	20.14	72.13	7.73	12.41
Apr	22.81	68.32	8.87	13.94

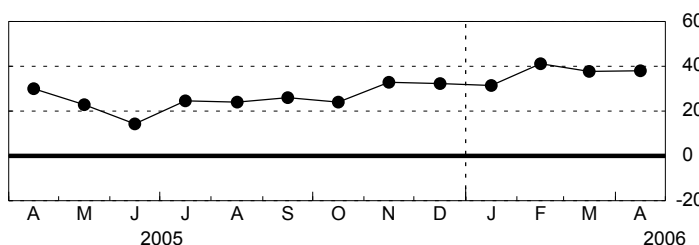
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	44.44	48.72	6.84	37.61
Apr	45.97	45.97	8.06	37.90

Capital Expenditures - Diffusion Index



Technology Spendings

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Mar	30.77	63.25	5.98	24.79
Apr	28.23	63.71	8.06	20.16

Technology Spendings - Diffusion Index

