March 2007

Empire State Manufacturing Survey

For release: March 15, 2007 8:30 a.m.

Summary

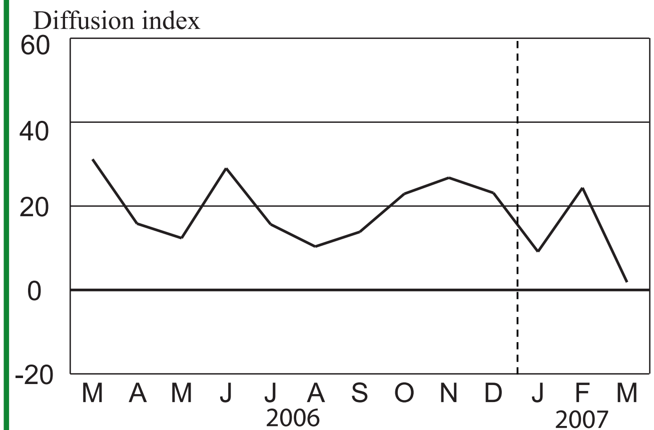
The *Empire State Manufacturing Survey* indicates that conditions for New York manufacturers were flat in March. The general business conditions index sank 23 points, to 1.9, its lowest level in nearly two years. The new orders index also fell sharply, and the shipments and unfilled orders indexes declined as well. The prices paid index inched upward, while the prices received index fell slightly. Employment indexes were mixed: the index for number of employees was positive but lower than last month, while the average workweek index was positive and several points above its February level. Future indexes for the most part held relatively steady, conveying an expectation that conditions would improve over the next six months. However, both future price indexes rose, suggesting that respondents expect price pressures to accelerate.

In a series of supplementary questions similar to those posed in the March 2006 survey, manufacturers were asked how much difficulty (if any) they were experiencing in finding workers proficient in select skill categories. Respondents to the current survey reported more difficulty finding proficient workers, across all categories, than did respondents a year ago. Advanced computer skills were identified as the most difficult skills to find, as in last year's survey. A substantial proportion of firms also noted trouble finding workers who were generally punctual and reliable. In response to an additional set of questions, not asked previously, firms indicated that training and related costs on average accounted for 6.4 percent of new workers' compensation over the past year, up from 5.3 percent in a typical year. In response to another new query, the average manufacturer in this month's survey indicated that 4.4 percent of the firm's workforce was expected to retire over the next two years.

General Business Conditions Index Sinks

The general business conditions index dropped sharply, from 24.4 in February to 1.9 in March—its lowest level since May 2005. The percentage of respondents reporting that conditions had improved fell from 41 percent to 32 percent, while the percentage reporting that conditions had deteriorated rose markedly, from 17 percent to 30 percent. The new orders index also dropped sharply, from 18.9 to 3.1. The shipments index fell from 27.1 to 18.5, and the unfilled orders index retreated below zero to -8.1. The delivery time and inventories indexes remained near their February levels, both at -4.7.

General Business Conditions



Price Indexes Point to Continued Price Increases

The prices paid index rose in March, to 30.2, with 30 percent of respondents reporting higher prices and none reporting lower prices. The prices received index fell slightly but remained positive, at 10.5, with a slight increase—from 4 to 7 percent—in the share of respondents receiving lower prices. The two employment indexes were positive but moved in opposite directions: the index for number of employees dipped one point, to 10.5, while the average workweek index rose 7 points, to 12.8.

Firms Expect Improved Conditions and Higher Prices

Future indexes were generally positive, suggesting that respondents expect conditions to improve over the next six months. The future general business conditions index dipped slightly below its February level, to 35.2. By contrast, the future new orders and shipments indexes were slightly higher than last month. The future unfilled orders index, which had risen sharply in February, retreated to 2.5 in March, giving up nearly all of its gain. The future indexes for both prices paid and prices received rose roughly 7 points, suggesting that firms are anticipating stronger upward pressure on prices over the next six months. The future index for number of employees was positive but slightly below its February level, while the future average workweek index dropped sharply, to 4.0. The capital expenditures index held steady at 32.6, while the technology spending index fell 6 points to 17.4.

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.

BUFFALO BRANCH, FEDERAL RESERVE BANK OF NEW YORK

40 Fountain Plaza-Suite 650, Buffalo, NY 14202 http://www.newyorkfed.org

Manufacturers See Greater Difficulty Finding Workers with Select Skills

In this month's survey, manufacturers were asked how much difficulty, if any, they were experiencing in finding workers proficient in a number of select skill categories. The table below shows results of the survey alongside the results from the March 2006 survey.

Across every category listed, manufacturers reported moderately more difficulty in finding workers than did their counterparts in 2006. As in last year's survey, workers with advanced computer skills were seen as the hardest to find: on a scale of 0 to 100, this task received a difficulty rating of 61.6 in this month's survey, up from 55 a year ago. (See table for a detailed explanation of this measure.) There was also a moderate increase in the difficulty rating for finding workers who are punctual and reliable (54, up from 49.5) and have good interpersonal skills (51.5, up from 47).

In a set of questions not asked in last year's survey, respondents were queried about training and related costs for new workers as a percentage of their overall compensation. On average, manufacturers indicated that such costs accounted for 6.4 percent of total compensation in the past year, compared with 5.3 percent in a typical year. Firms were also asked what percentage of their workers they expected to retire over the next two years; the mean response was 4.4 percent.

Finally, manufacturers were asked—as they had been in 2006—whether they were currently experiencing difficulty filling openings in particular occupational categories. A somewhat higher proportion than last year indicated difficulties finding production workers, sales workers, building maintenance personnel, and business and finance workers. In contrast, a slightly lower proportion of firms than a year ago indicated trouble finding office and administrative workers, as well as installation, repair, and maintenance workers. The percentage of manufacturers indicating difficulty for each of the other occupations listed was not substantially different from that in last year's survey.

March 2007 Survey Results
Responses to Supplementary Questions

To what extent have you recently had difficulty finding workers that are proficient in each of the following areas?

	Percentage of Respondents Reporting					***Difficulty Rating**** *Based on Survey in:*	
	No Difficulty	←		→	*Great Difficulty*	*March 07*	*March 06*
Basic math skills	14	21	26	31	7	48.8	44.2
Basic English skills	16	16	36	28	5	47.6	41.7
Basic computer skills	14	17	34	31	4	48.2	42.0
Advanced computer skills	13	8	24	34	23	61.6	54.9
Interpersonal skills	9	17	38	33	4	51.5	46.9
Punctuality / reliability	10	21	25	31	13	54.2	49.5

** This measure is used to achieve comparability between the 2006 and 2007 surveys, owing to slightly different response options.*

For the March 2007 survey, this measure gives the following weights to the columns shown: 0%, 25%, 50%, 75%, 100%. For the March 2006 survey, the measure gives a weight of 100% to "great difficulty, 50% to "some difficulty" and 0% to "no difficulty."

This measure can range from 0 (when all respondents indicate no difficulty) to 100 (when all respondents indicate great difficulty)

If you have incurred additional training or related costs to bring new hires up to speed, roughly what percentage of these workers' annual compensation does this represent? What does it represent in a typical year?

	Mean	*Median*
Percentage of compensation this past year	6.5	3.0
Percentage of compensation in a typical year	5.3	3.8

What percentage of your workers do you expect to retire over the next two years?

	Mean	*Median*
Percentage of workers expected to retire	4.4	3.0

Are you experiencing difficulty finding workers to fill openings in any the following occupations?

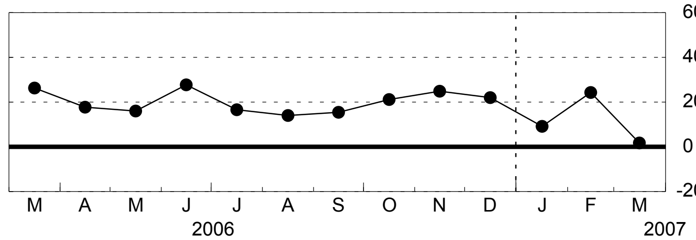
	March 07	*March 06*
Production	48.8	40.5
Management	19.5	21.6
Installation, repair, and maintenance	14.6	17.2
Sales (including retail clerks)	12.2	7.8
Architects and engineers	11.0	11.2
Business and finance	9.8	6.9
Office and administrative	8.5	12.9
Computer and information technology	8.5	9.5
Building maintenance	8.5	2.6
Transportation operators	2.4	0.9

Empire State Manufacturing Survey, March 2007
Seasonally Adjusted

General Business Conditions

	Higher	Same	Lower	Index
Feb	41.32	41.71	16.97	24.35
Mar	31.62	38.60	29.78	1.85

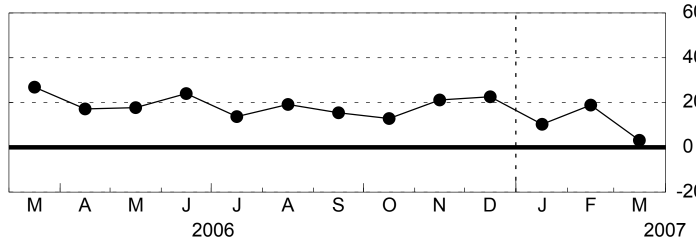
General Business Conditions - Diffusion Index



New Orders

	Higher	Same	Lower	Index
Feb	38.70	41.54	19.77	18.93
Mar	32.07	39.01	28.93	3.14

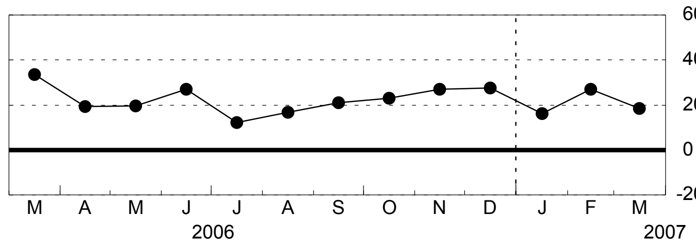
New Orders - Diffusion Index



Shipments

	Higher	Same	Lower	Index
Feb	44.77	37.53	17.70	27.07
Mar	42.13	34.28	23.59	18.54

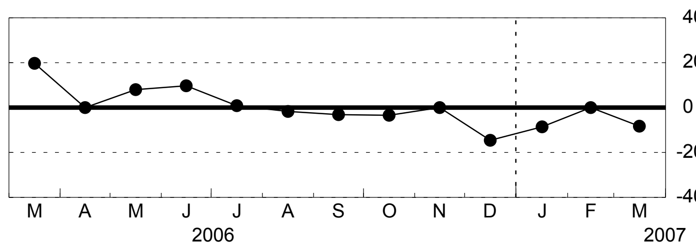
Shipments - Diffusion Index



Unfilled Orders

	Higher	Same	Lower	Index
Feb	17.20	65.59	17.20	0.00
Mar	8.14	75.58	16.28	-8.14

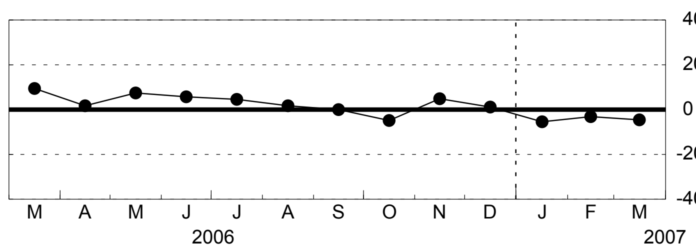
Unfilled Orders - Diffusion Index



Delivery Time

	Higher	Same	Lower	Index
Feb	7.53	81.72	10.75	-3.23
Mar	6.98	81.40	11.63	-4.65

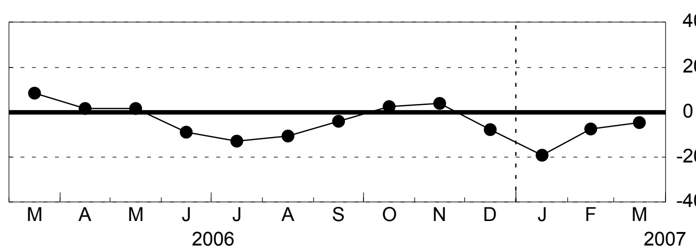
Delivery Time - Diffusion Index



Inventories

	Higher	Same	Lower	Index
Feb	20.43	51.61	27.96	-7.53
Mar	20.93	53.49	25.58	-4.65

Inventories - Diffusion Index



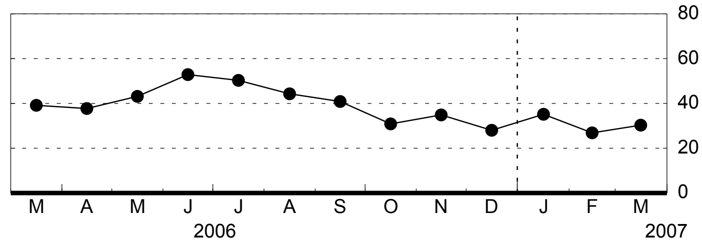
Empire State Manufacturing Survey, March 2007

Seasonally Adjusted

Prices Paid

	Higher	Same	Lower	Index
Feb	31.18	64.52	4.30	26.88
Mar	30.23	69.77	0.00	30.23

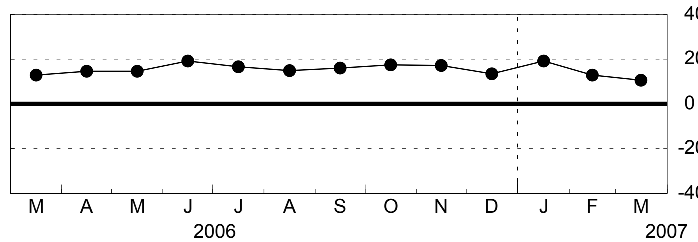
Prices Paid - Diffusion Index



Prices Received

	Higher	Same	Lower	Index
Feb	17.20	78.49	4.30	12.90
Mar	17.44	75.58	6.98	10.47

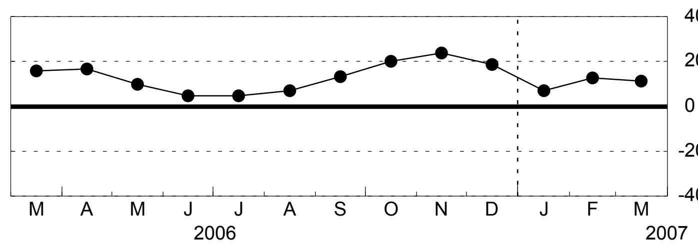
Prices Received - Diffusion Index



Number of Employees

	Higher	Same	Lower	Index
Feb	23.45	65.80	10.75	12.70
Mar	23.00	65.38	11.63	11.37

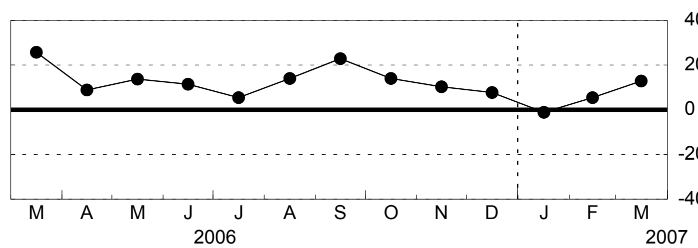
Number of Employees - Diffusion Index



Average Employee Workweek

	Higher	Same	Lower	Index
Feb	19.35	66.67	13.98	5.38
Mar	23.26	66.28	10.47	12.79

Average Employee Workweek - Diffusion Index



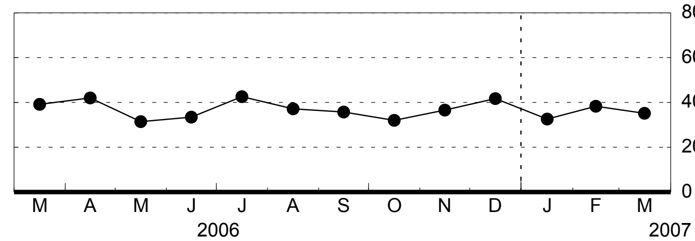
Empire State Manufacturing Survey, March 2007, Expectations Six Months Ahead

Seasonally Adjusted

General Business Conditions

	Higher	Same	Lower	Index
Feb	51.60	35.28	13.11	38.49
Mar	45.25	44.68	10.08	35.17

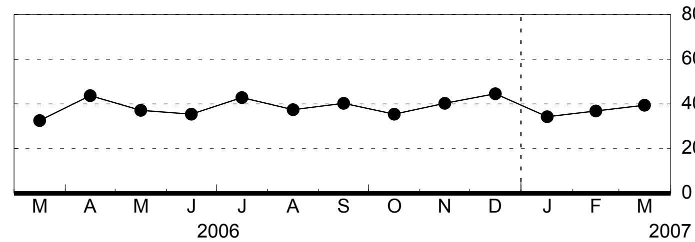
General Business Conditions - Diffusion Index



New Orders

	Higher	Same	Lower	Index
Feb	47.69	41.56	10.75	36.95
Mar	51.13	37.01	11.86	39.28

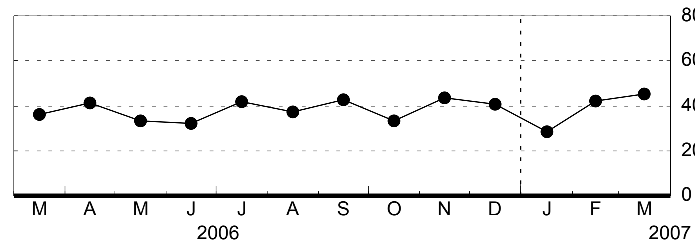
New Orders - Diffusion Index



Shipments

	Higher	Same	Lower	Index
Feb	51.22	39.72	9.06	42.16
Mar	52.28	40.88	6.84	45.44

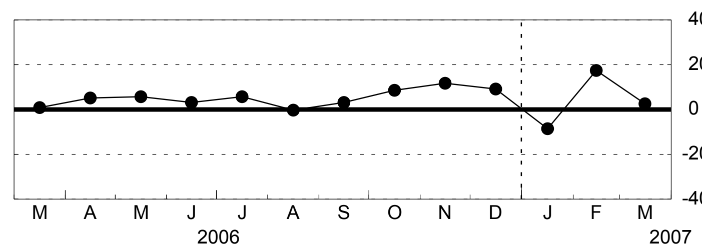
Shipments - Diffusion Index



Unfilled Orders

	Higher	Same	Lower	Index
Feb	22.58	72.36	5.06	17.52
Mar	15.12	72.29	12.59	2.52

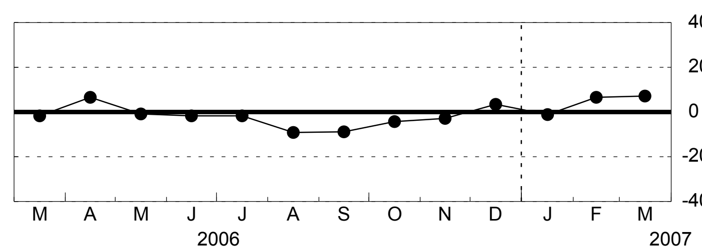
Unfilled Orders - Diffusion Index



Delivery Time

	Higher	Same	Lower	Index
Feb	11.83	82.80	5.38	6.45
Mar	11.63	83.72	4.65	6.98

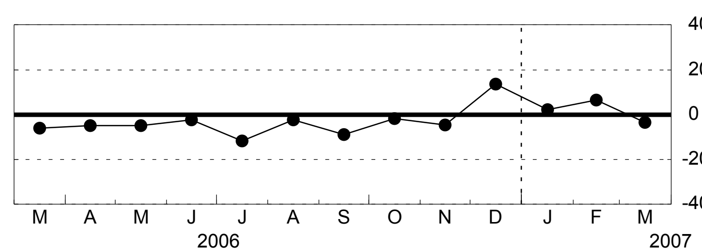
Delivery Time - Diffusion Index



Inventories

	Higher	Same	Lower	Index
Feb	26.88	52.69	20.43	6.45
Mar	23.26	50.00	26.74	-3.49

Inventories - Diffusion Index



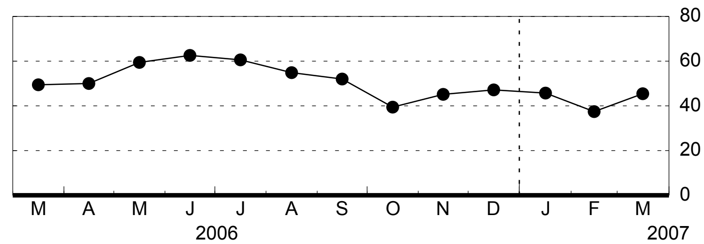
Empire State Manufacturing Survey, March 2007, Expectations Six Months Ahead

Seasonally Adjusted

Prices Paid

	Higher	Same	Lower	Index
Feb	41.94	53.76	4.30	37.63
Mar	47.67	50.00	2.33	45.35

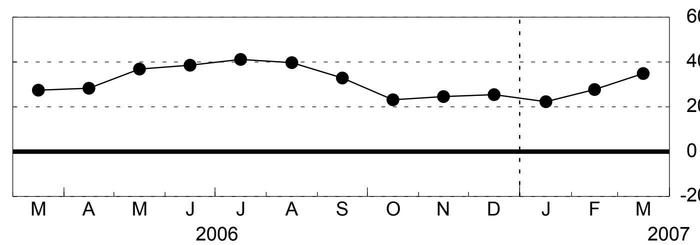
Prices Paid - Diffusion Index



Prices Received

	Higher	Same	Lower	Index
Feb	29.77	68.08	2.15	27.62
Mar	37.09	60.58	2.33	34.77

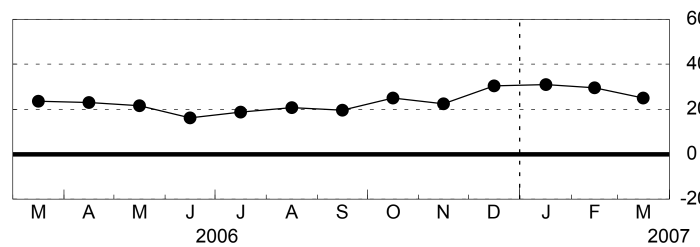
Prices Received - Diffusion Index



Number of Employees

	Higher	Same	Lower	Index
Feb	37.63	54.27	8.10	29.54
Mar	36.05	52.82	11.14	24.91

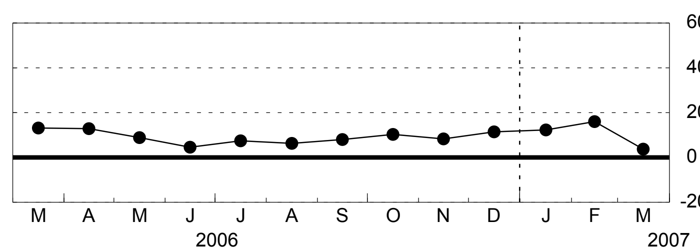
Number of Employees - Diffusion Index



Average Employee Workweek

	Higher	Same	Lower	Index
Feb	21.40	73.23	5.38	16.02
Mar	14.42	75.12	10.47	3.95

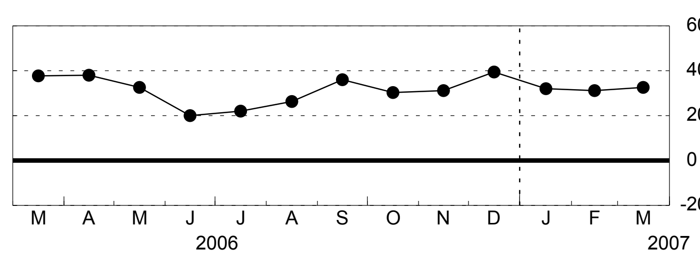
Average Employee Workweek - Diffusion Index



Capital Expenditures

	Higher	Same	Lower	Index
Feb	37.63	55.91	6.45	31.18
Mar	43.02	46.51	10.47	32.56

Capital Expenditures - Diffusion Index



Technology Spending

	Higher	Same	Lower	Index
Feb	26.88	69.89	3.23	23.66
Mar	26.74	63.95	9.30	17.44

Technology Spending - Diffusion Index