

Empire State Manufacturing Survey

The *Empire State Manufacturing Survey* indicates that manufacturing activity improved in New York State in December. The general business conditions index rose nine points to 9.5, its highest level since May. The new orders index climbed above zero, to 5.1, and the shipments index advanced eleven points to 20.9. Input price increases steepened, with the prices paid index rising six points to 24.4. Selling prices increased only modestly, with the prices received index inching down to 3.5. Employment indexes were mixed, showing a slight increase in employment levels but a slight decrease in the length of the average

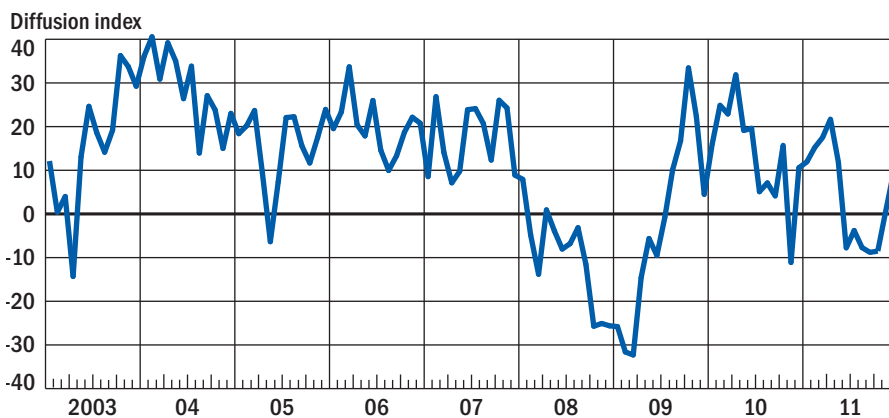
workweek. Future indexes rose sharply for a second consecutive month, with the future general business conditions index climbing thirteen points to 52.3, suggesting a return to the high levels of optimism seen earlier in 2011.

In response to a series of supplementary survey questions about changes in input and selling prices, manufacturers predicted that input prices would increase by slightly more in calendar 2012 than in 2011 in some budget categories but by less in others. Prices paid overall were reported to have risen 4.3 percent on average in 2011, and this rate was expected to slow somewhat to 3.5 percent in 2012.

Among the broad budget categories, employee benefits showed the steepest price increases—both actual and expected; respondents reported that these costs climbed 7.3 percent, on average, in 2011 and were expected to rise 6.1 percent in 2012. These increases were well below the 10 percent average jump anticipated by respondents in last December's survey. Wages were expected to climb 2.8 percent on average in 2012. As for expected changes in selling prices, manufacturers foresaw an average increase of 1.8 percent over the next year, down from 3.2 percent in last December's survey.

General Business Conditions

Seasonally adjusted



Business Activity Expands

The general business conditions index rose nine points in December to reach 9.5, indicating that business activity improved over the month. The index had been near or below zero since June, so this reading was the first since May to show that manufacturing conditions had registered a measurable gain. Nearly one-third of respondents reported that conditions were better in December, while about one-fifth reported that conditions had worsened. The new orders index advanced seven points, rising above zero to 5.1—a sign that orders were

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modestly higher over the month. The shipments index climbed eleven points to 20.9, indicating a significant increase in shipments. The unfilled orders index moved deeper into negative territory, falling eight points to -15.1. The delivery time index held steady at 0.0, and the inventories index rose but remained below zero at -3.5.

Cost Increases Pick Up

The prices paid index rose six points to 24.4, indicating a slight acceleration in input costs in December. However, the index remains well below the levels seen earlier this year. The prices received index inched down three points but remained above zero at 3.5, indicating a small increase in

selling prices. Employment indexes were mixed, but essentially showed little change in employment. The index for number of employees was 2.3, indicating a slight increase in employment levels, while the average workweek index was -2.3, indicating a slight decrease in the length of the average workweek.

Six-Month Outlook Continues to Brighten

Future indexes climbed sharply for a second month in a row, a sign that respondents have continued to become more optimistic about the six-month outlook. The future general business conditions index rose thirteen points to 52.3, reaching a level comparable to the fairly high readings seen earlier this

year. The future new orders index surged nineteen points, to 54.7, and the future shipments index jumped to 51.2. Input prices were expected to rise relatively rapidly over the next six months, with the future prices paid index climbing twenty points to 57.0. Selling prices were also expected to rise; the future prices received index advanced ten points to 36.1. Employment indexes were higher, with the index for expected number of employees moving up ten points to 24.4, and the average workweek index up fourteen points to 22.1. The capital expenditures index held steady at 23.3, and the technology spending index inched up to 15.1. ■

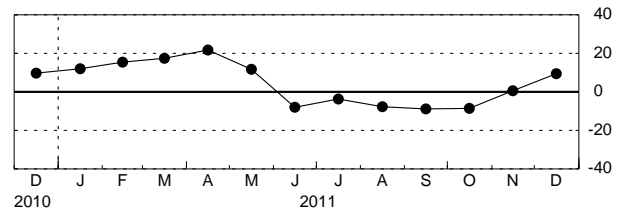
Current Indicators

Change from Preceding Month

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	23.53	53.54	22.93	0.61
Dec	31.67	46.19	22.14	9.53

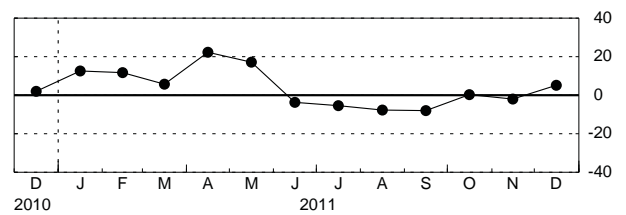
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	24.33	49.26	26.41	-2.07
Dec	29.59	45.93	24.49	5.10

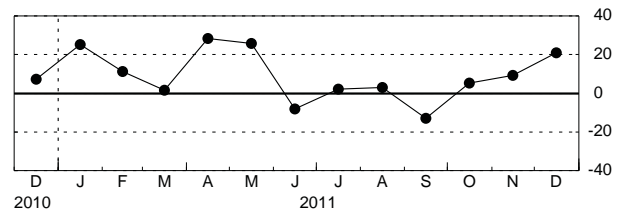
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	25.31	58.82	15.88	9.43
Dec	38.82	43.23	17.95	20.87

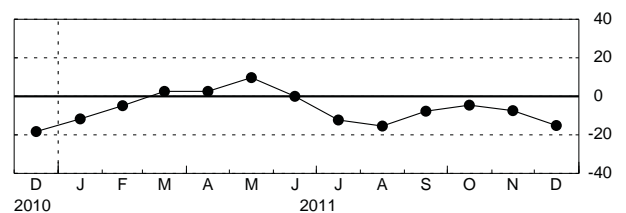
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	13.41	65.85	20.73	-7.32
Dec	12.79	59.30	27.91	-15.12

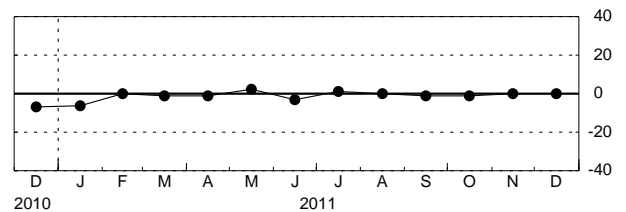
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	8.54	82.93	8.54	0.00
Dec	11.63	76.74	11.63	0.00

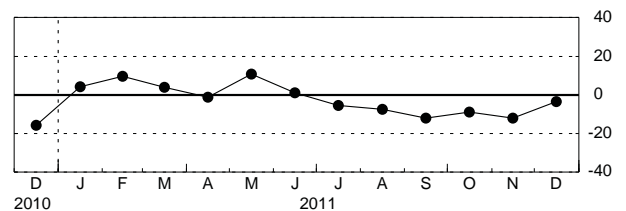
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	15.85	56.10	28.05	-12.20
Dec	25.58	45.35	29.07	-3.49

Inventories - Diffusion Index



Current Indicators, *continued*

Change from Preceding Month

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	26.83	64.63	8.54	18.29
Dec	29.07	66.28	4.65	24.42

Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	18.29	69.51	12.20	6.10
Dec	10.47	82.56	6.98	3.49

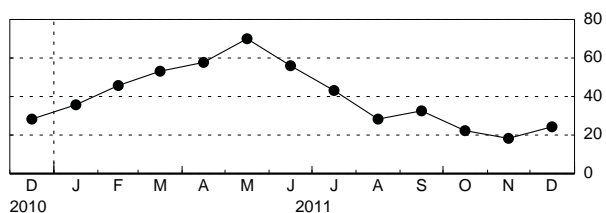
Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	12.20	71.95	15.85	-3.66
Dec	16.28	69.77	13.95	2.33

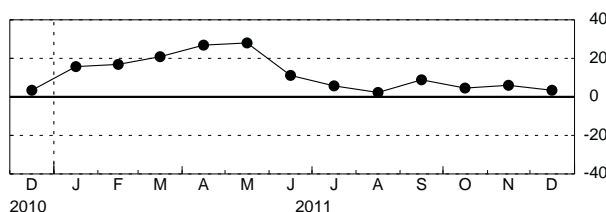
Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	10.98	80.49	8.54	2.44
Dec	15.12	67.44	17.44	-2.33

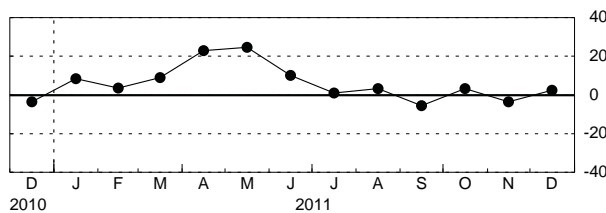
Prices Paid - Diffusion Index



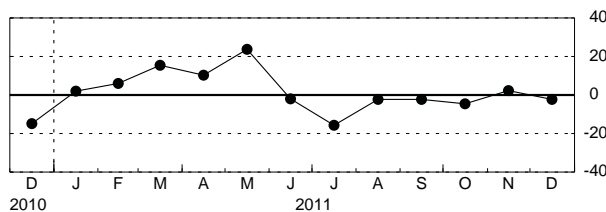
Prices Received - Diffusion Index



Number of Employees - Diffusion Index



Average Employee Workweek - Diffusion Index



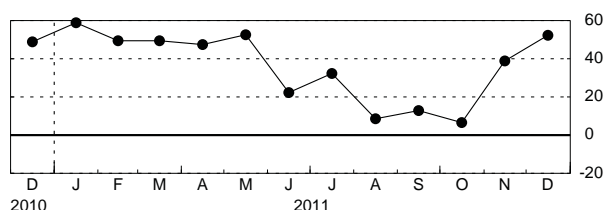
Forward-Looking Indicators

Expectations Six Months Ahead

General Business Conditions

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	48.78	41.46	9.76	39.02
Dec	62.79	26.74	10.47	52.33

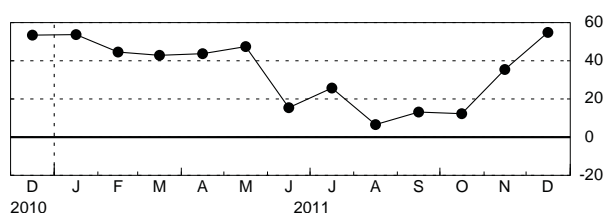
General Business Conditions - Diffusion Index



New Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	48.78	37.80	13.41	35.37
Dec	63.95	26.74	9.30	54.65

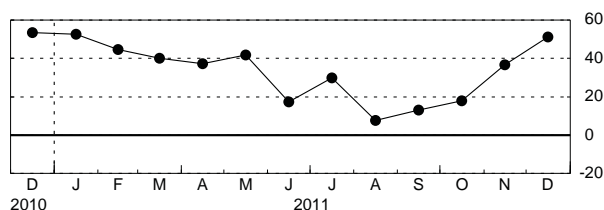
New Orders - Diffusion Index



Shipments

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	48.78	39.02	12.20	36.59
Dec	61.63	27.91	10.47	51.16

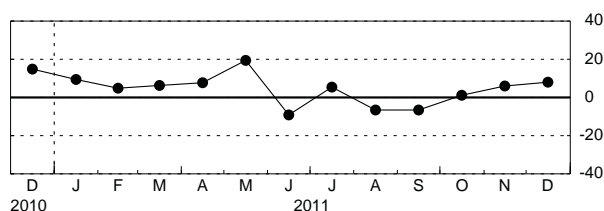
Shipments - Diffusion Index



Unfilled Orders

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	17.07	71.95	10.98	6.10
Dec	22.09	63.95	13.95	8.14

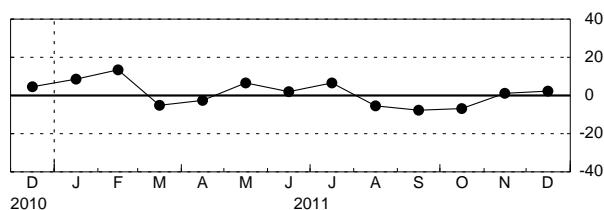
Unfilled Orders - Diffusion Index



Delivery Time

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	10.98	79.27	9.76	1.22
Dec	10.47	81.40	8.14	2.33

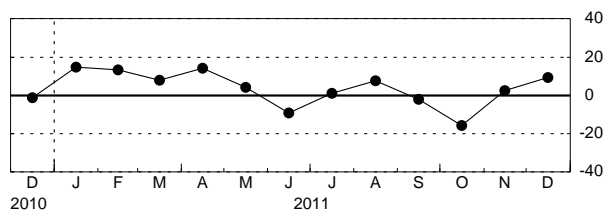
Delivery Time - Diffusion Index



Inventories

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	24.39	53.66	21.95	2.44
Dec	29.07	51.16	19.77	9.30

Inventories - Diffusion Index



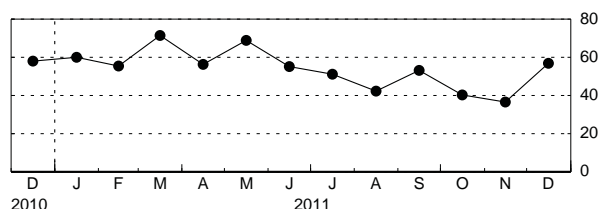
Forward-Looking Indicators, *continued*

Expectations Six Months Ahead

Prices Paid

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	42.68	51.22	6.10	36.59
Dec	59.30	38.37	2.33	56.98

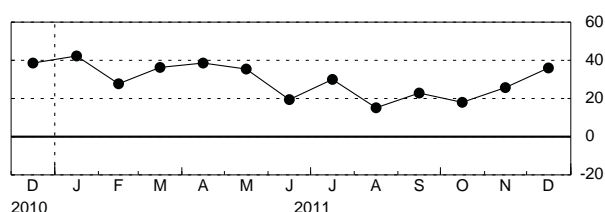
Prices Paid - Diffusion Index



Prices Received

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	35.37	54.88	9.76	25.61
Dec	44.19	47.67	8.14	36.05

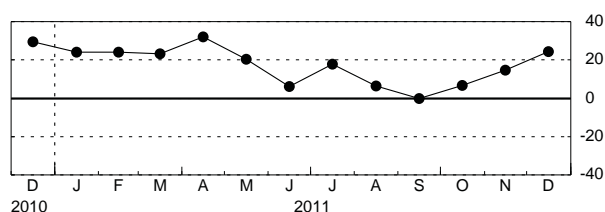
Prices Received - Diffusion Index



Number of Employees

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	28.05	58.54	13.41	14.63
Dec	38.37	47.67	13.95	24.42

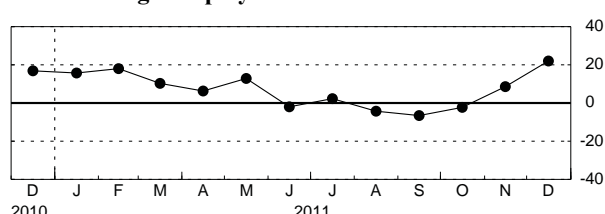
Number of Employees - Diffusion Index



Average Employee Workweek

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	18.29	71.95	9.76	8.54
Dec	27.91	66.28	5.81	22.09

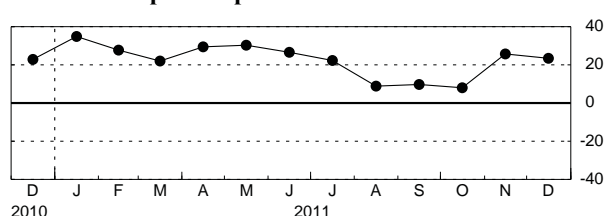
Average Employee Workweek - Diffusion Index



Capital Expenditures

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	36.59	52.44	10.98	25.61
Dec	36.05	51.16	12.79	23.26

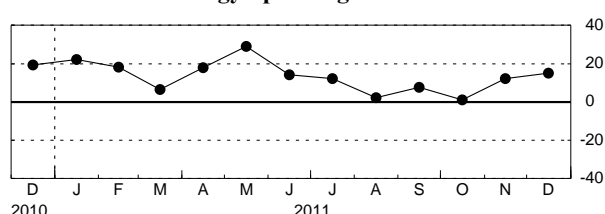
Capital Expenditures - Diffusion Index



Technology Spending

	<u>Higher</u>	<u>Same</u>	<u>Lower</u>	<u>Index</u>
Nov	18.29	75.61	6.10	12.20
Dec	25.58	63.95	10.47	15.12

Technology Spending - Diffusion Index



Note: All data are seasonally adjusted.

Supplemental Report:

Manufacturers Foresee Some Deceleration in Both Input and Selling Prices

Supplementary questions to the December 2011 *Empire State Manufacturing Survey* focused on recent and expected changes in the prices paid by firms for several major budget categories, including wages, employee benefits, insurance, energy, and other commodities. The same set of questions had been asked in December 2010 and in earlier years.

In the current survey, firms predicted that prices paid would increase by slightly more in calendar 2012 than in 2011 in some budget categories but by less in others. Prices paid overall were reported to have risen 4.3 percent on average in 2011; this rate was expected to slow somewhat to 3.5 percent in 2012. Among the broad budget categories, employee benefits showed the

steepest price increases—both actual and expected; respondents reported that these costs climbed 7.3 percent, on average, in 2011 and were expected to rise 6.1 percent in 2012. Both figures were well below the 10 percent average jump anticipated by respondents in last December's survey. Wages were expected to climb 2.8 percent on average in 2012, with anticipated price rises of 3.9 percent for non-energy commodities and 3.3 percent for insurance (excluding health benefits). Outside services and energy costs were expected to rise by less than 3 percent next year.

Respondents were also asked to gauge the likelihood that the prices they paid overall would increase or decrease within certain specified ranges. The overall distribution very closely resembled the one

in last December's survey: the perceived probability that prices would rise by more than 2 percent averaged out to 64 percent, while respondents reported a 12 percent chance that prices would rise by at least 8 percent. At the other end of the spectrum, the average perceived probability that prices would decline by at least 2 percent overall was a little more than 4 percent—down slightly from 7 percent in last year's survey.

Finally, respondents were asked how they expected their selling prices to change over the next year. The average expected increase in the current survey was 1.8 percent—down from 3.2 percent in last year's survey but roughly equal to the increase foreseen in the December 2009 survey. ■

Continued

Supplemental Report, *continued*

QUESTION 1

For each budget category, please indicate the approximate percentage change in the price you paid in 2011 and the expected percentage change in the price in 2012:

	December 2011 Survey		December 2010 Survey
	Average percentage Change Reported for 2011	Average percentage Change Expected for 2012	Average percentage Change Expected for 2011
Wages	2.4	2.8	3.3
Employee benefits	7.3	6.1	10.1
Insurance (liability, fire, etc.)	2.9	3.3	4.3
Outside services	2.6	2.4	3.3
Energy	2.4	2.9	2.6
Other commodities	5.2	3.9	3.9
Overall	4.3	3.5	4.5

QUESTION 2

What would you say is the percentage chance that, over the next twelve months, your prices paid will . . .

	Average percentage Chance of Specified Price Change in Given Survey Month*	
	December 2011	December 2010
Increase 8 percent or more	11.8	12.2
Increase 2 to 8 percent	52.3	51.5
Stay within 2 percent of current levels	31.5	29.0
Decrease 2 to 8 percent	3.9	5.7
Decrease 8 percent or more	0.5	1.7

* Survey respondents were asked to assign a specific percentage change to each possible outcome; the values in this table reflect the average indicated percentage change across all respondents.

QUESTION 3

By how much do you expect your selling prices to change, on average, over the next year?

	December 2011	December 2010
Average percentage change	1.8	3.2
Median percentage change	2.0	2.5