

Regional Economic Update

Second Federal Reserve District

July 2010 Regional Economic Press Briefing

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Federal Reserve Bank of New York

July 22, 2010



The views expressed here are those of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.

Overview

I. Economic Activity

- Economic activity has improved in New York State, New York City and Puerto Rico; activity in New Jersey has held steady

II. Employment Trends

- During the past few months, the number of private-sector jobs within the District has generally increased

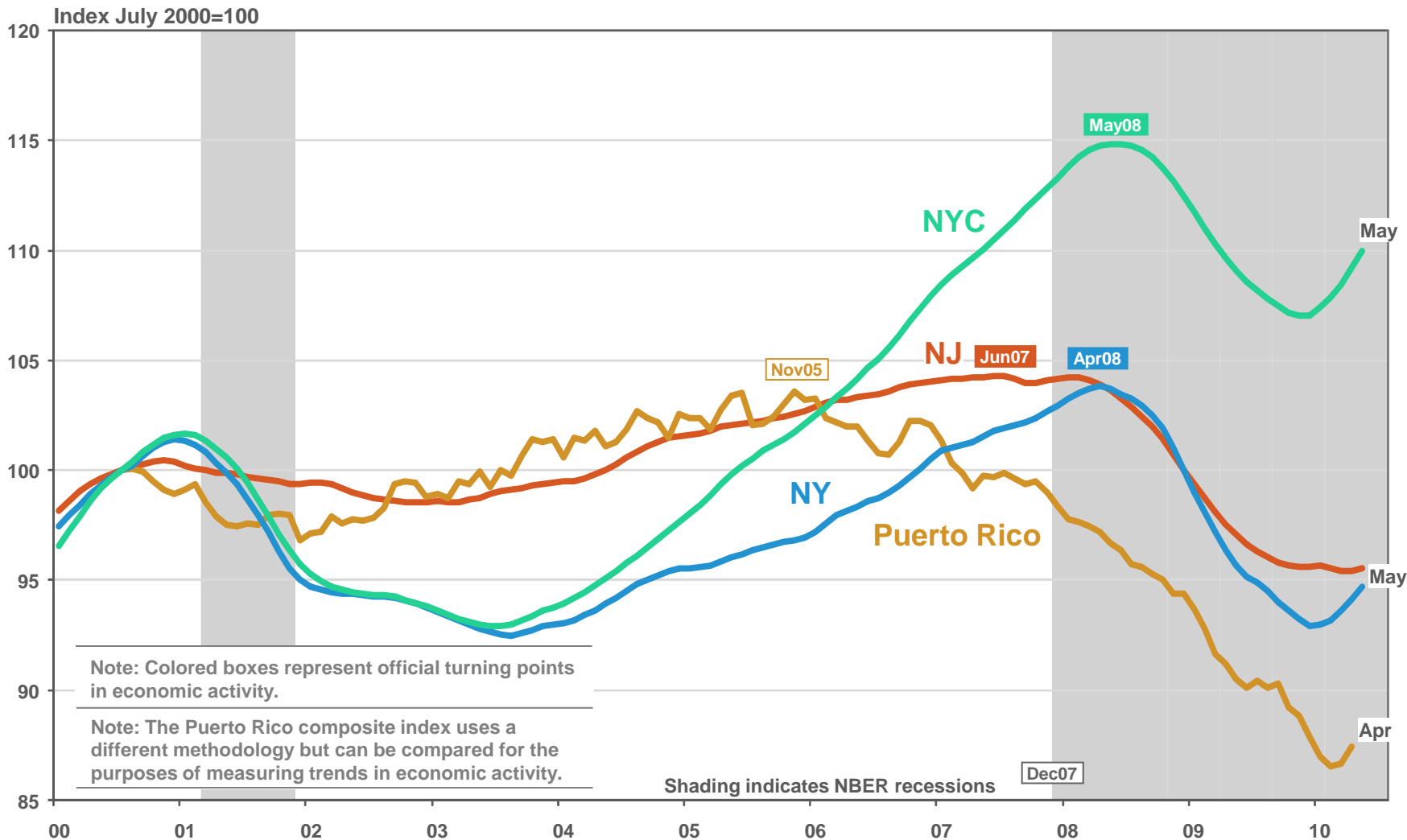
III. Unemployment Rate

- Unemployment rates have generally fallen throughout the District, but remain at exceptionally high levels



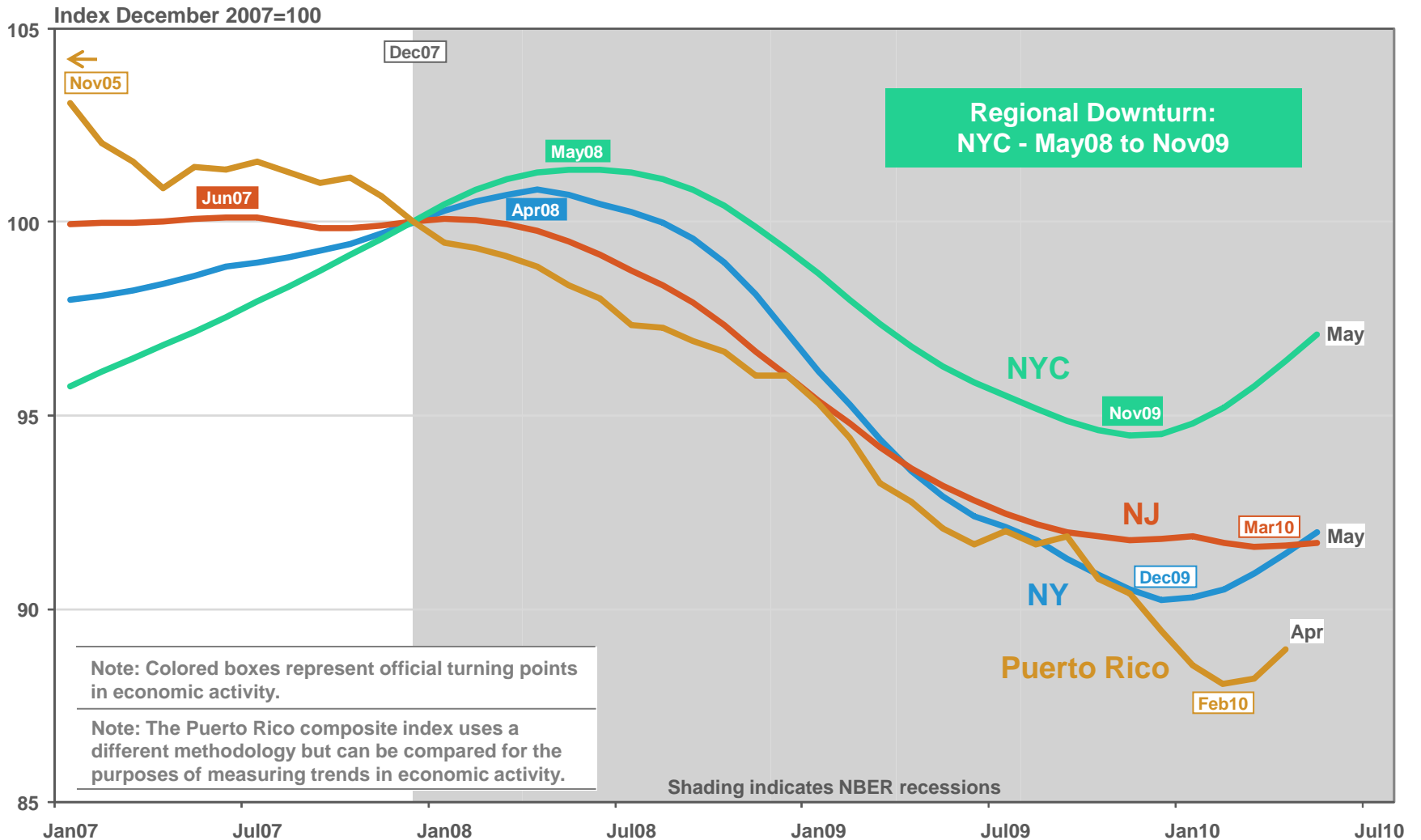
Regional Economic Activity

Index of Coincident Economic Indicators



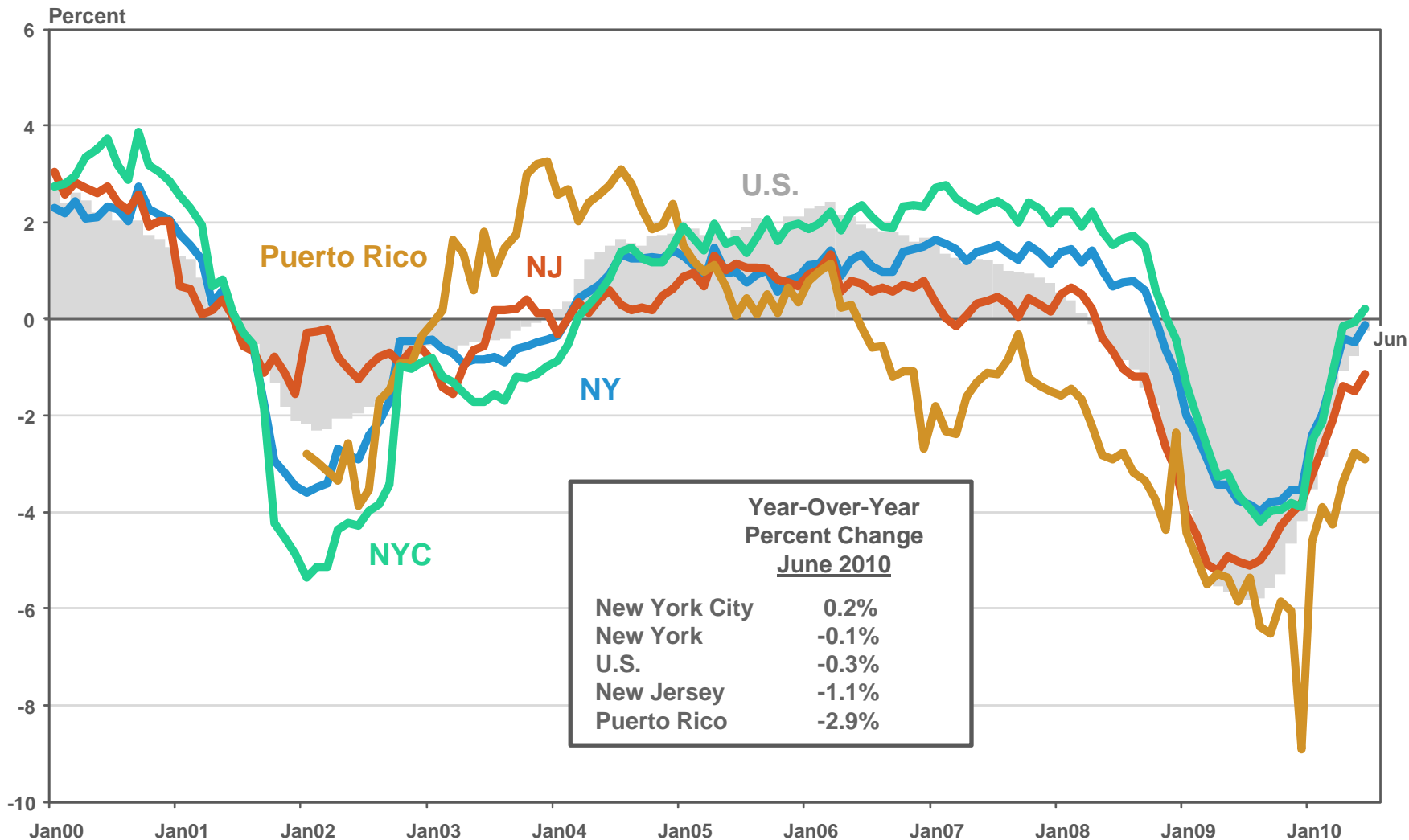
Regional Economic Activity During the Recession

Index of Coincident Economic Indicators



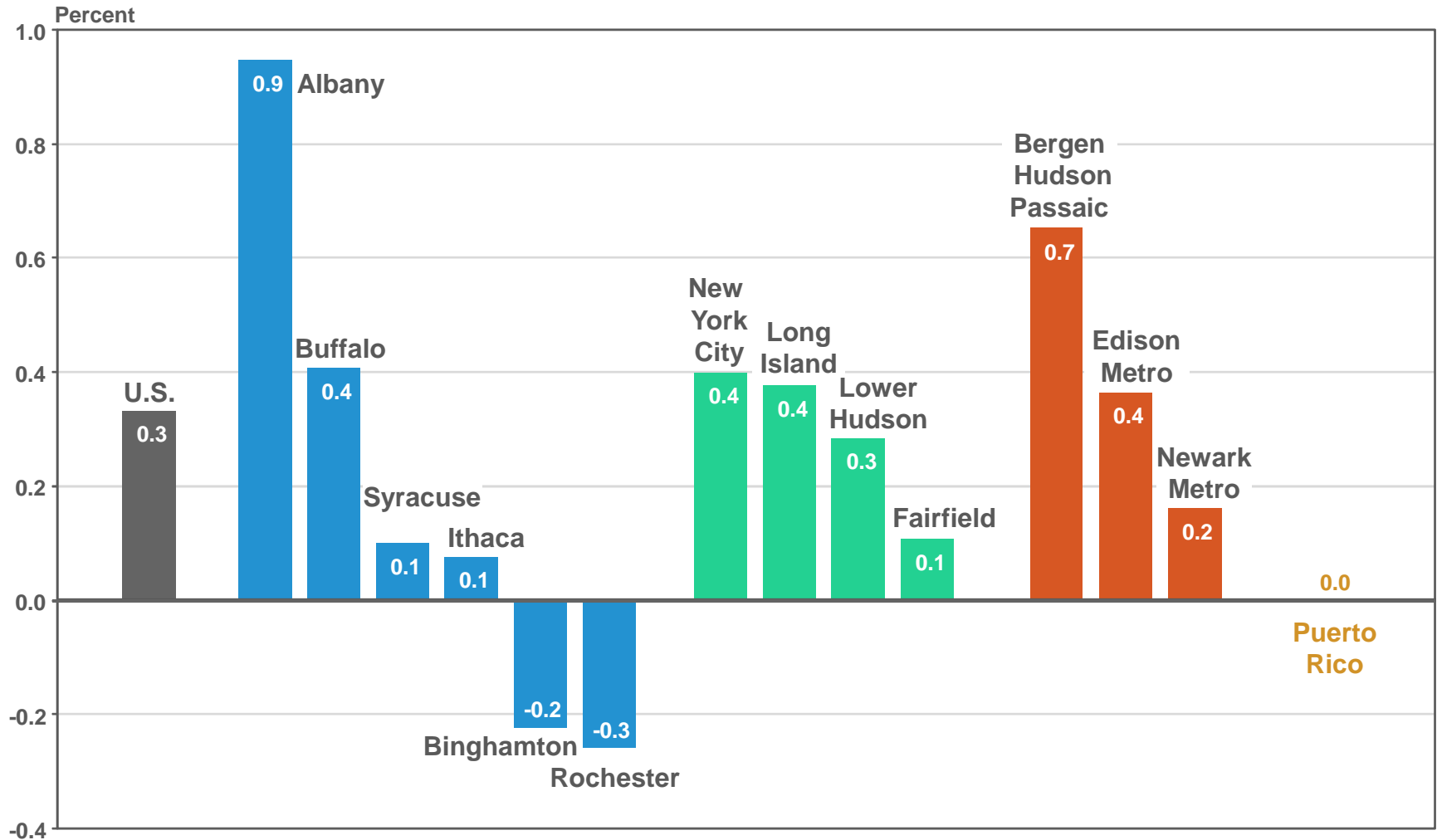
Private-Sector Job Growth

Year-over-Year Percent Change in Private Sector Employment



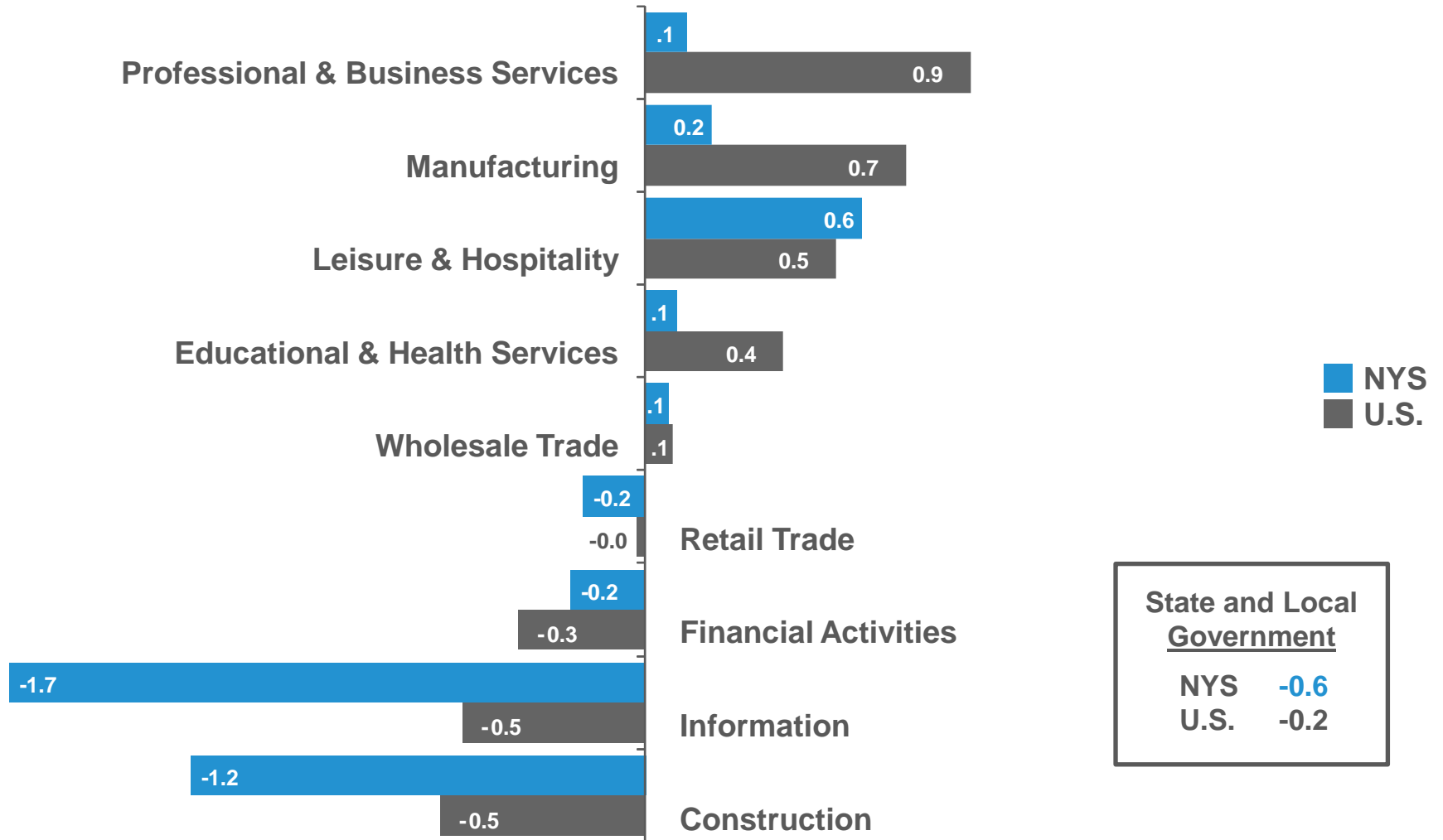
Regional Private-Sector Job Growth

Seasonally Adjusted, Percent Change, March to June 2010



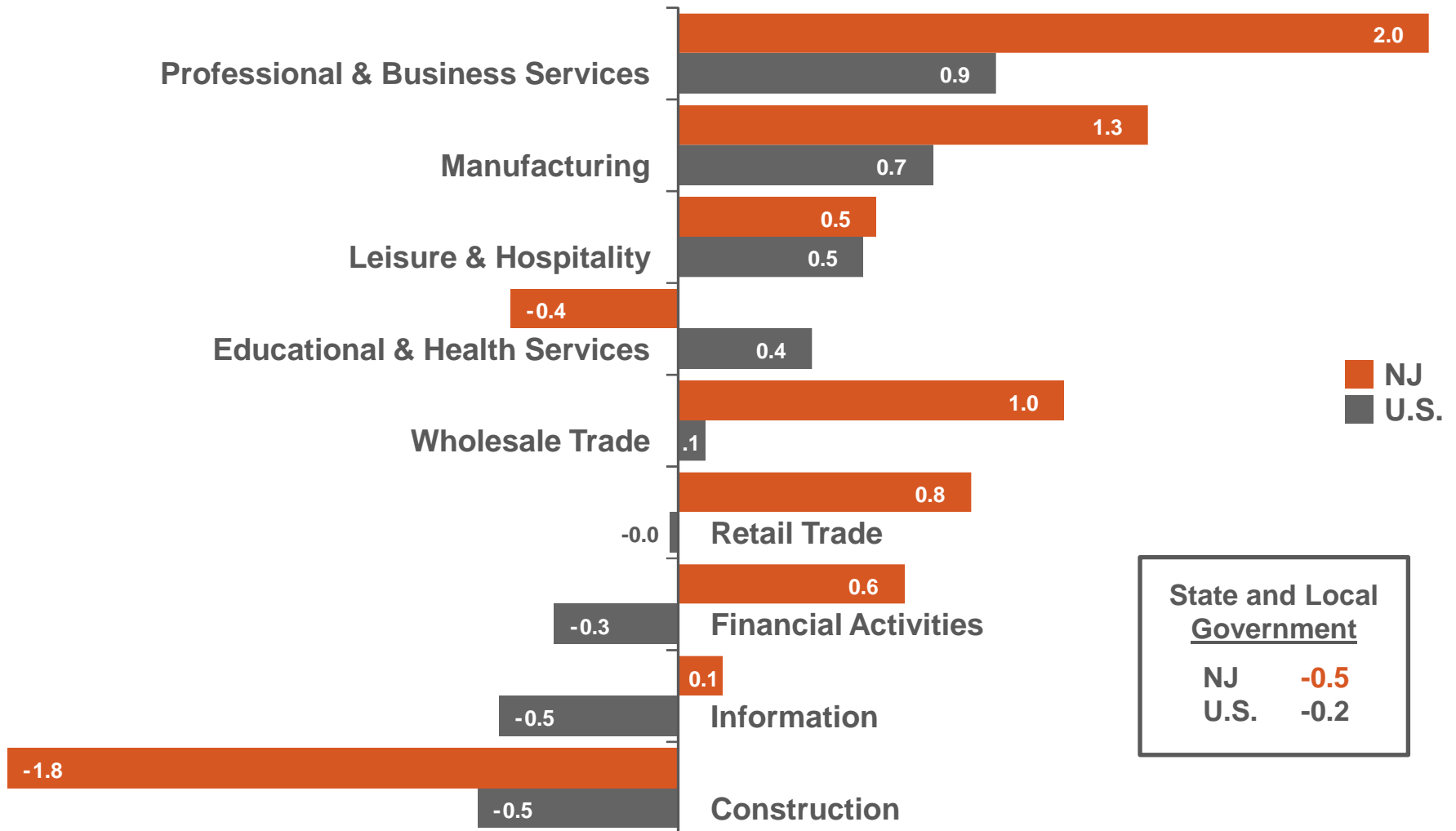
Private-Sector Job Growth by Sector (U.S. & New York)

Seasonally Adjusted, Percent Change, March to June 2010



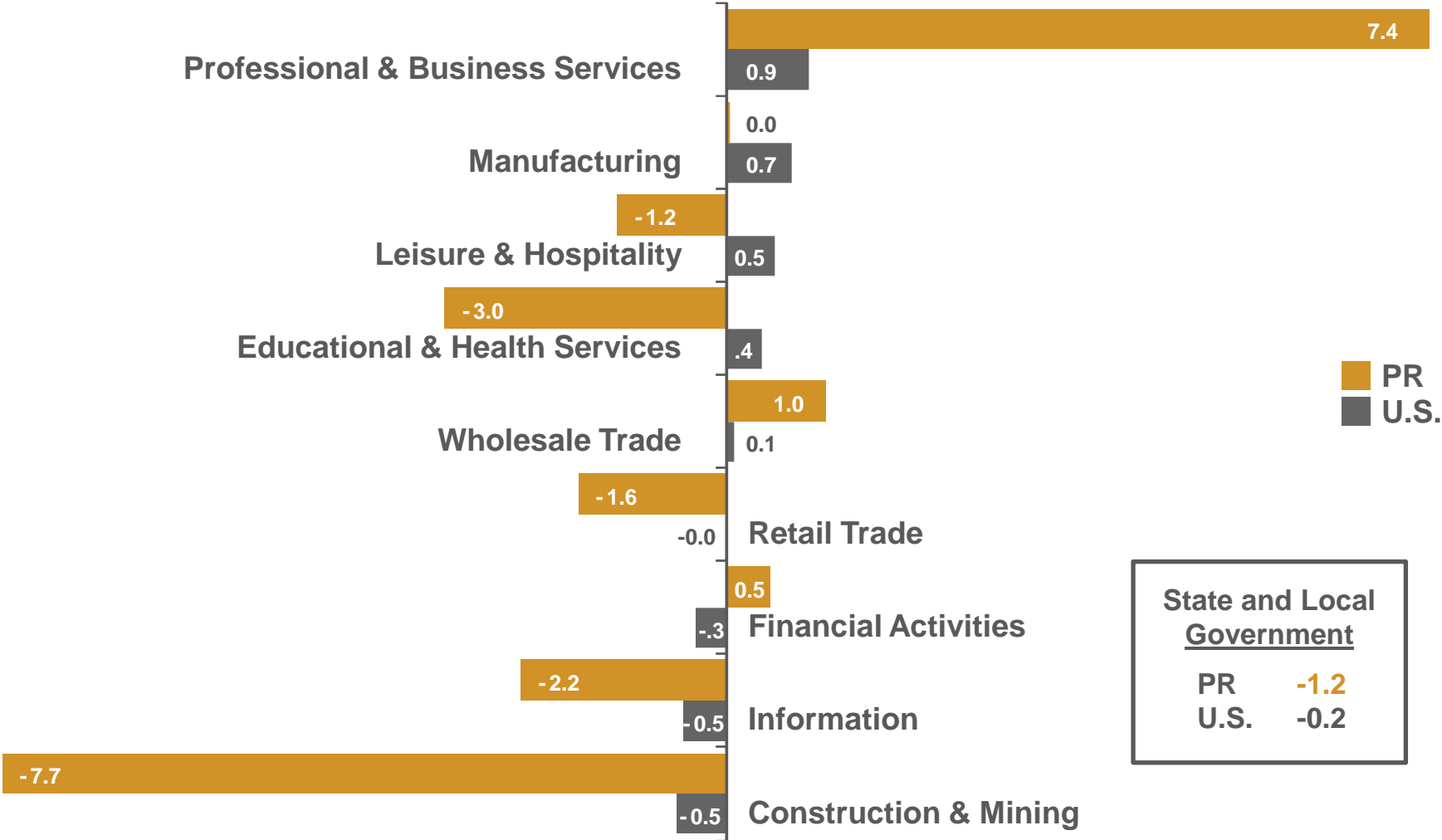
Private-Sector Job Growth by Sector (U.S. & New Jersey)

Seasonally Adjusted, Percent Change, March to June 2010



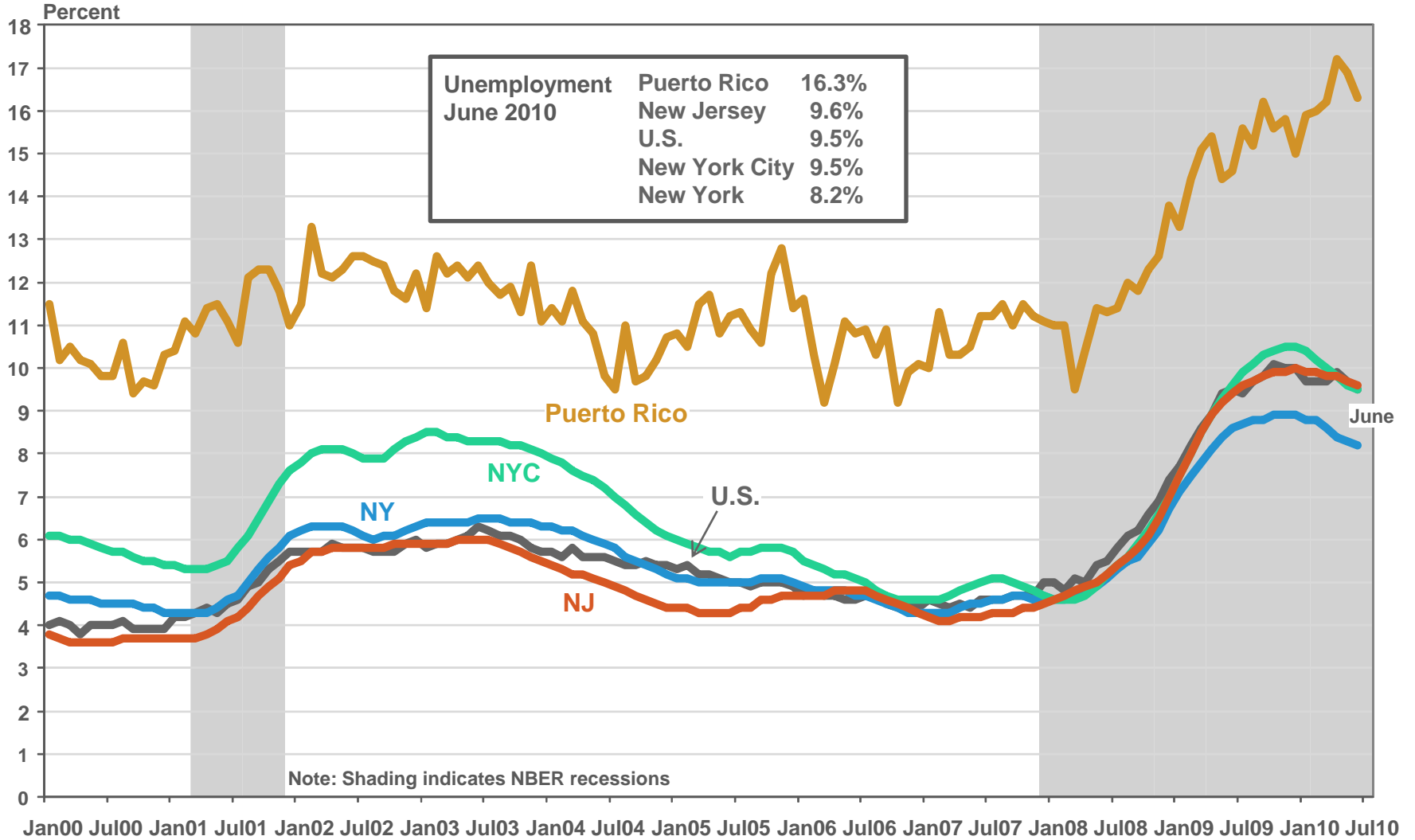
Private-Sector Job Growth by Sector (U.S. & Puerto Rico)

Seasonally Adjusted, Percent Change, March to June 2010



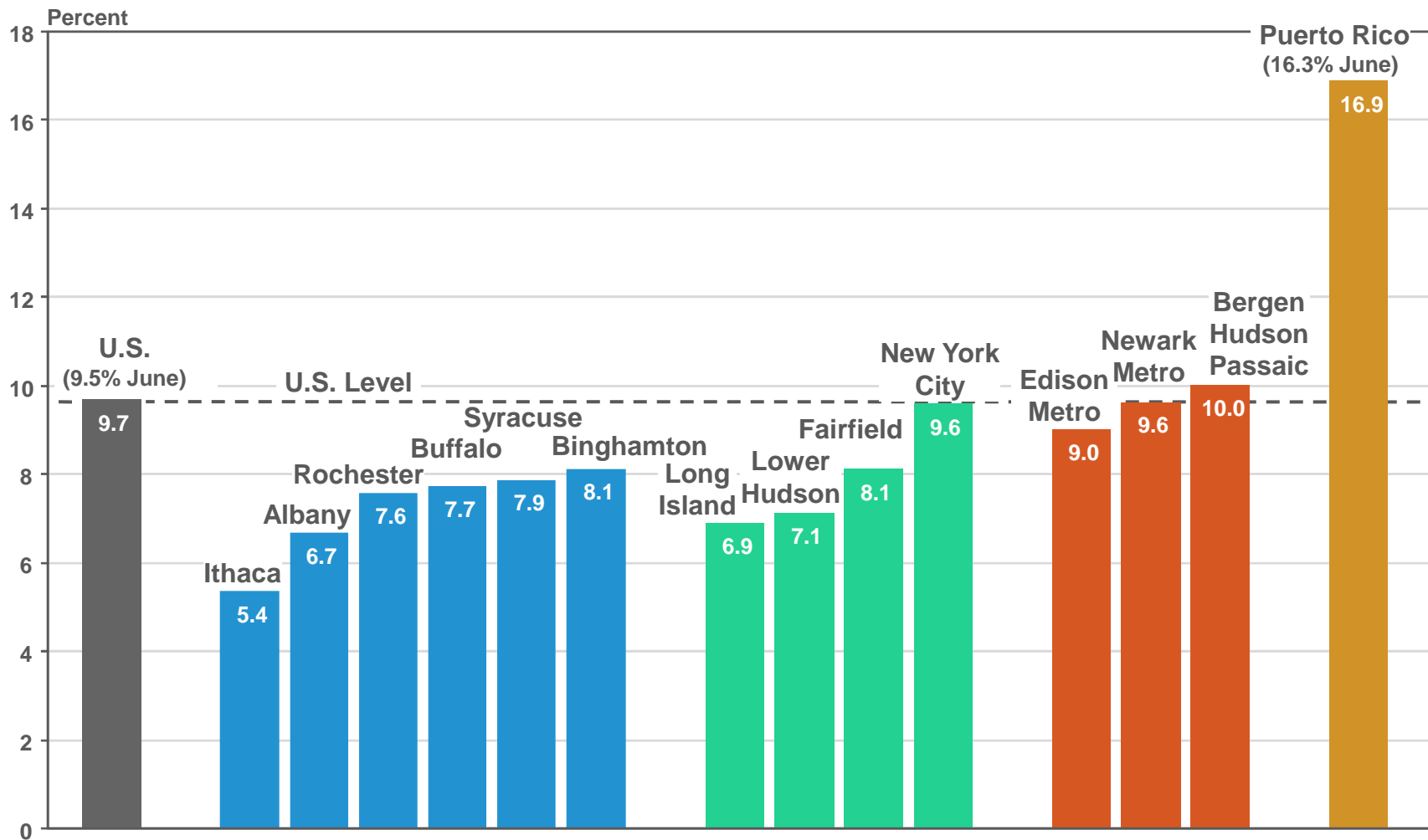
Unemployment

Seasonally Adjusted Rates



Regional Unemployment Rates

Seasonally Adjusted, May 2010



Summary

- Economic activity in New York State, New York City, and Puerto Rico appears to be recovering; economic activity in New Jersey has remained essentially flat
- The number of private-sector jobs within the District has generally increased during the past few months
 - Gains have been concentrated largely in the professional & business services, manufacturing, and leisure & hospitality sectors
- Unemployment rates have retreated somewhat in recent months, but remain at exceptionally high levels

Manufacturing in New York, New Jersey & Puerto Rico
July 2010 Regional Economic Press Briefing

Richard Deitz & Jason Bram
Federal Reserve Bank of New York
July 22, 2010



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Manufacturing: An Important Industry for the Region

- A large and high-paying industry in many parts of New York, New Jersey, Connecticut & Puerto Rico
- Experiencing extensive structural changes, most notably long-term employment decline
- A cyclical upturn in manufacturing employment began in 2010, although jobs declined in June

Agenda

- Describe the region's manufacturing industry and local specializations
- Characterize long-term structural changes and describe recent upturn
- Present analysis of recent results from New York Fed's *Empire State Manufacturing Survey*

The Federal Reserve's Second District

Largest Manufacturing Industries (2007 Share of Manufacturing Employment)

United States

Transportation Equip	12%
Fabricated Metals	12%
Food	11%

Buffalo

Transportation Equip	15%
Fabricated Metals	12%
Machinery	12%

Syracuse

Computers & Electronics	13%
Transportation Equip	12%
Primary Metals	9%

Rochester

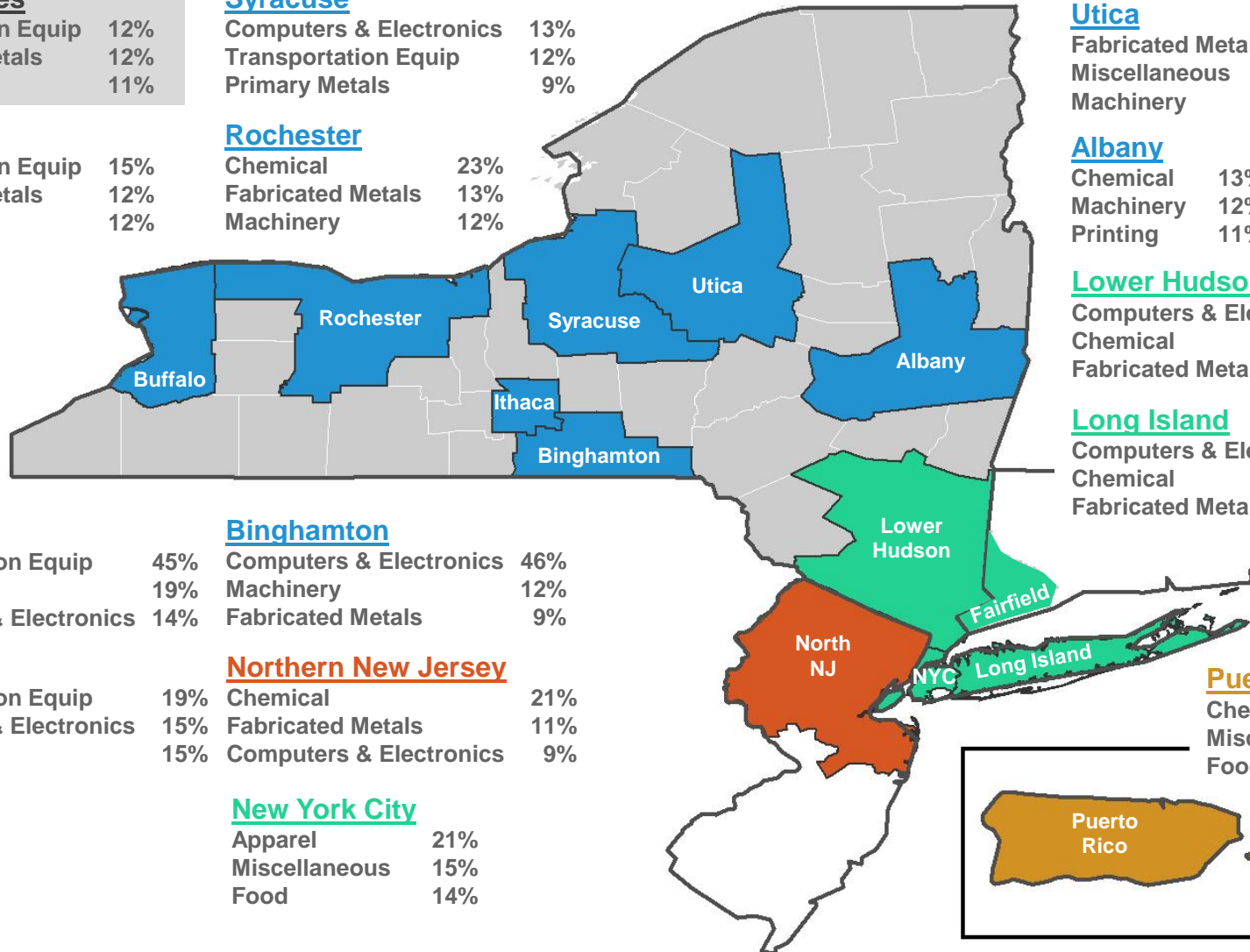
Chemical	23%
Fabricated Metals	13%
Machinery	12%

Utica

Fabricated Metals	18%
Miscellaneous	13%
Machinery	10%

Albany

Chemical	13%
Machinery	12%
Printing	11%



Lower Hudson

Computers & Electronics	34%
Chemical	11%
Fabricated Metals	7%

Long Island

Computers & Electronics	15%
Chemical	14%
Fabricated Metals	13%

Ithaca

Transportation Equip	45%
Machinery	19%
Computers & Electronics	14%

Binghamton

Computers & Electronics	46%
Machinery	12%
Fabricated Metals	9%

Fairfield

Transportation Equip	19%
Computers & Electronics	15%
Machinery	15%

Northern New Jersey

Chemical	21%
Fabricated Metals	11%
Computers & Electronics	9%

New York City

Apparel	21%
Miscellaneous	15%
Food	14%

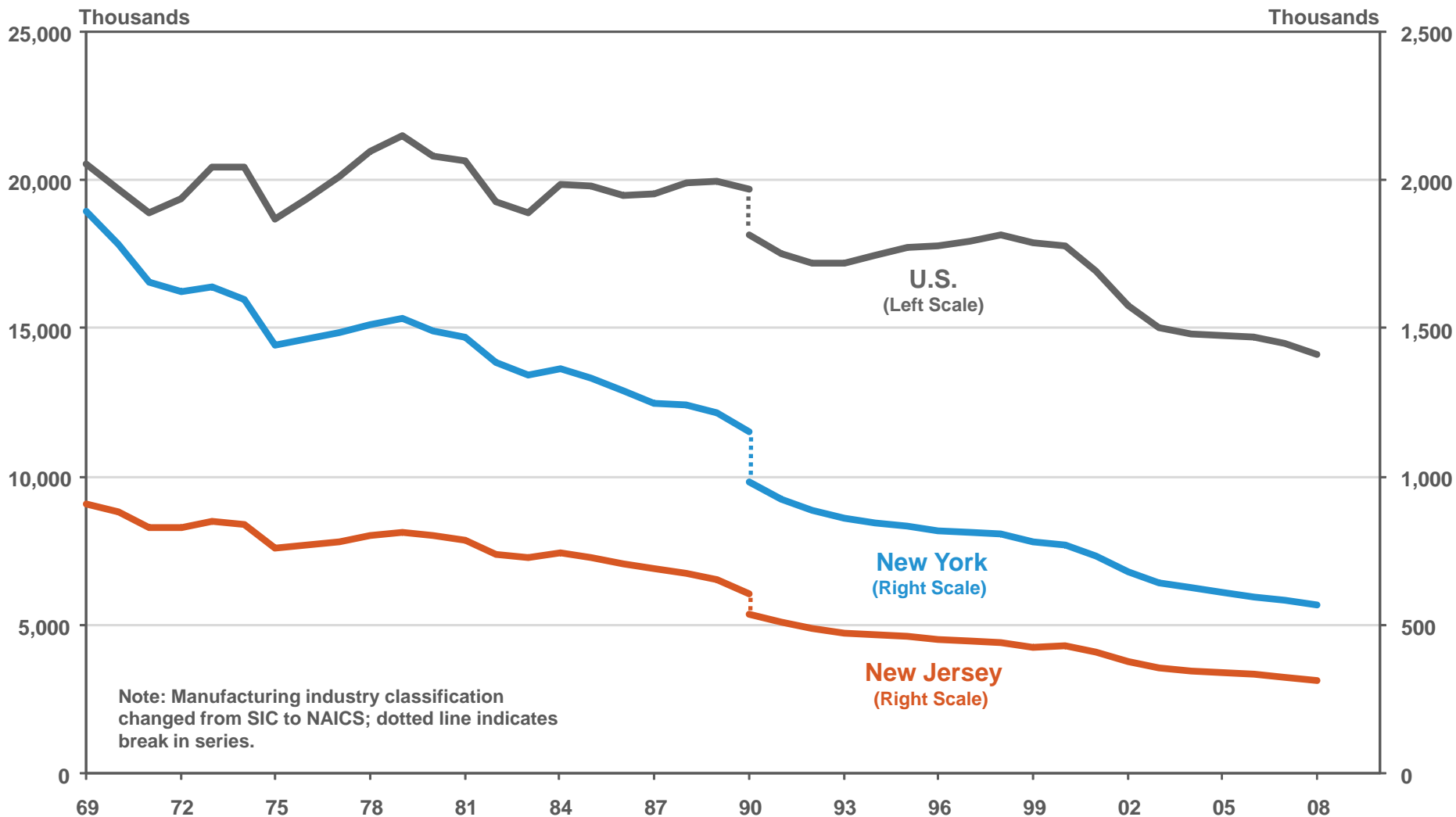
Puerto Rico

Chemical	28%
Miscellaneous	16%
Food	10%



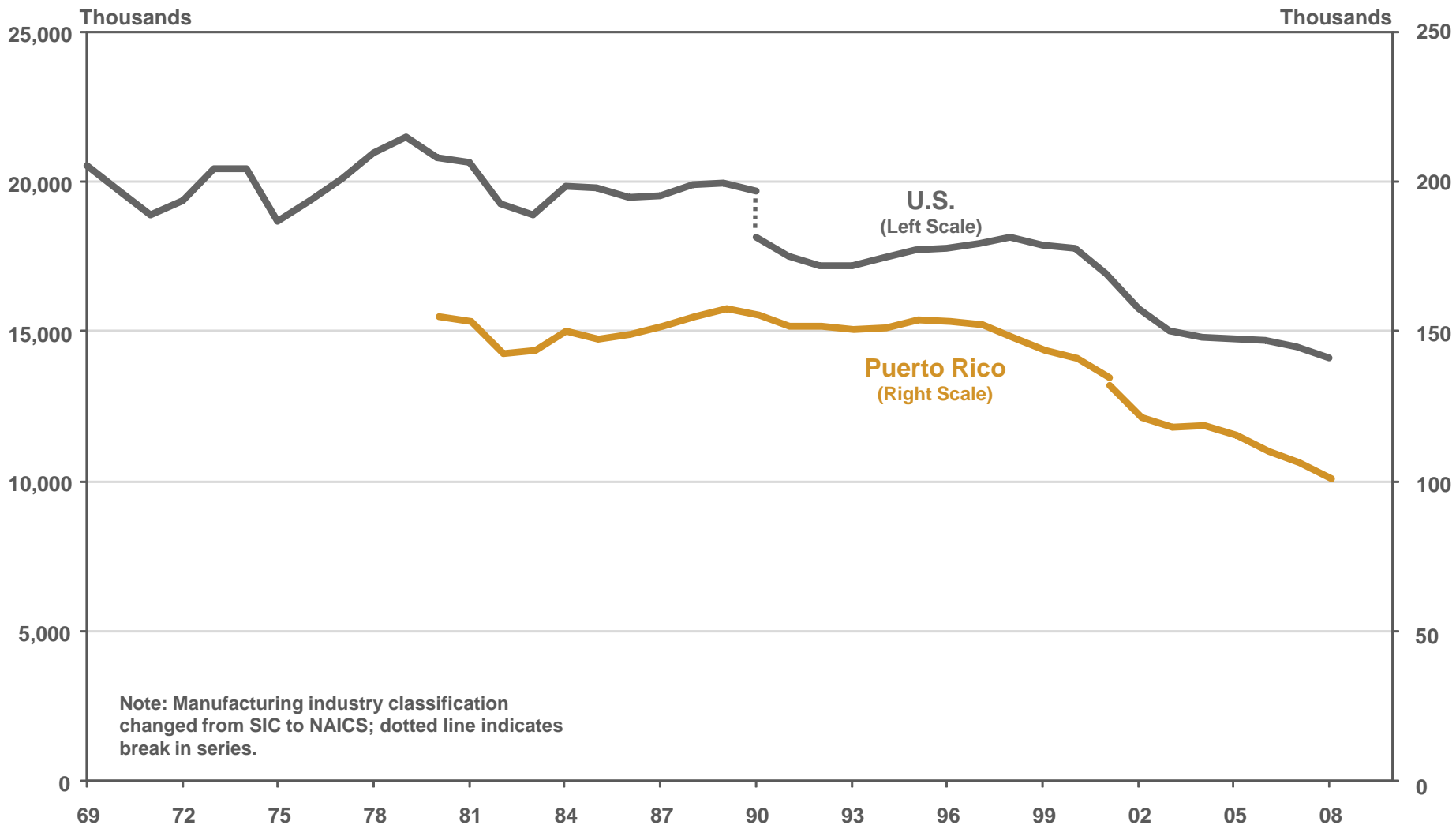
Manufacturing Employment Levels Declining

Total Number of Manufacturing Jobs



Manufacturing Employment Levels Declining

Total Number of Manufacturing Jobs



Note: Manufacturing industry classification changed from SIC to NAICS; dotted line indicates break in series.



Employment Loss by Manufacturing Industry

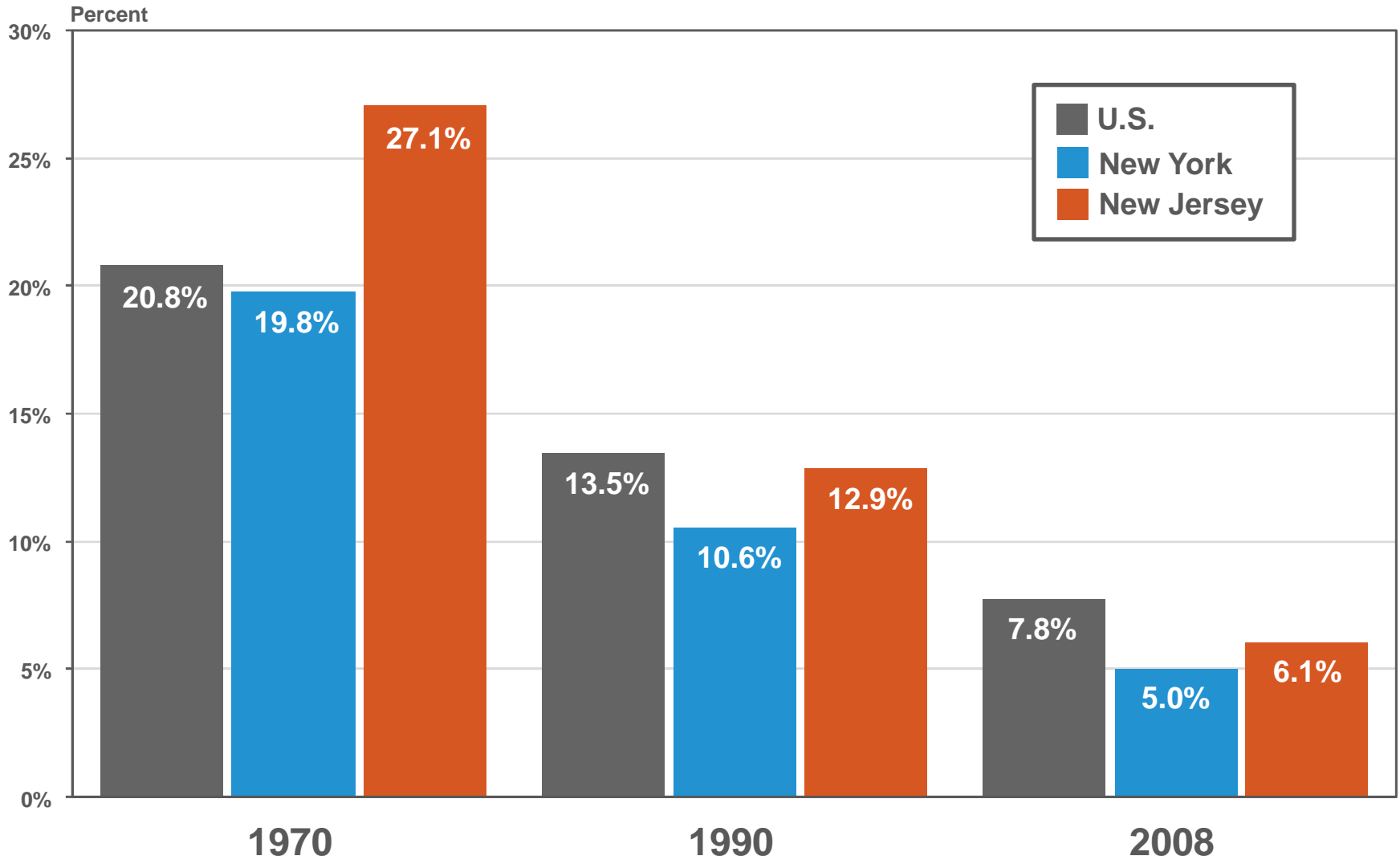
Change in Employment for Selected industries, 1990-2007

Manufacturing Industry	New York	New Jersey	U.S.
Apparel	-73%	-70%	-74%
Computers & Electronics	-53%	-74%	-21%
Motor Vehicles & Parts	-38%	-32%	-24%
Other Transportation Equipment	-47%	-50%	-32%
Chemicals	-38%	-50%	-33%
Machinery	-35%	-55%	-34%
Fabricated Metals	-23%	-34%	-3%
Total Manufacturing	-42%	-42%	-22%



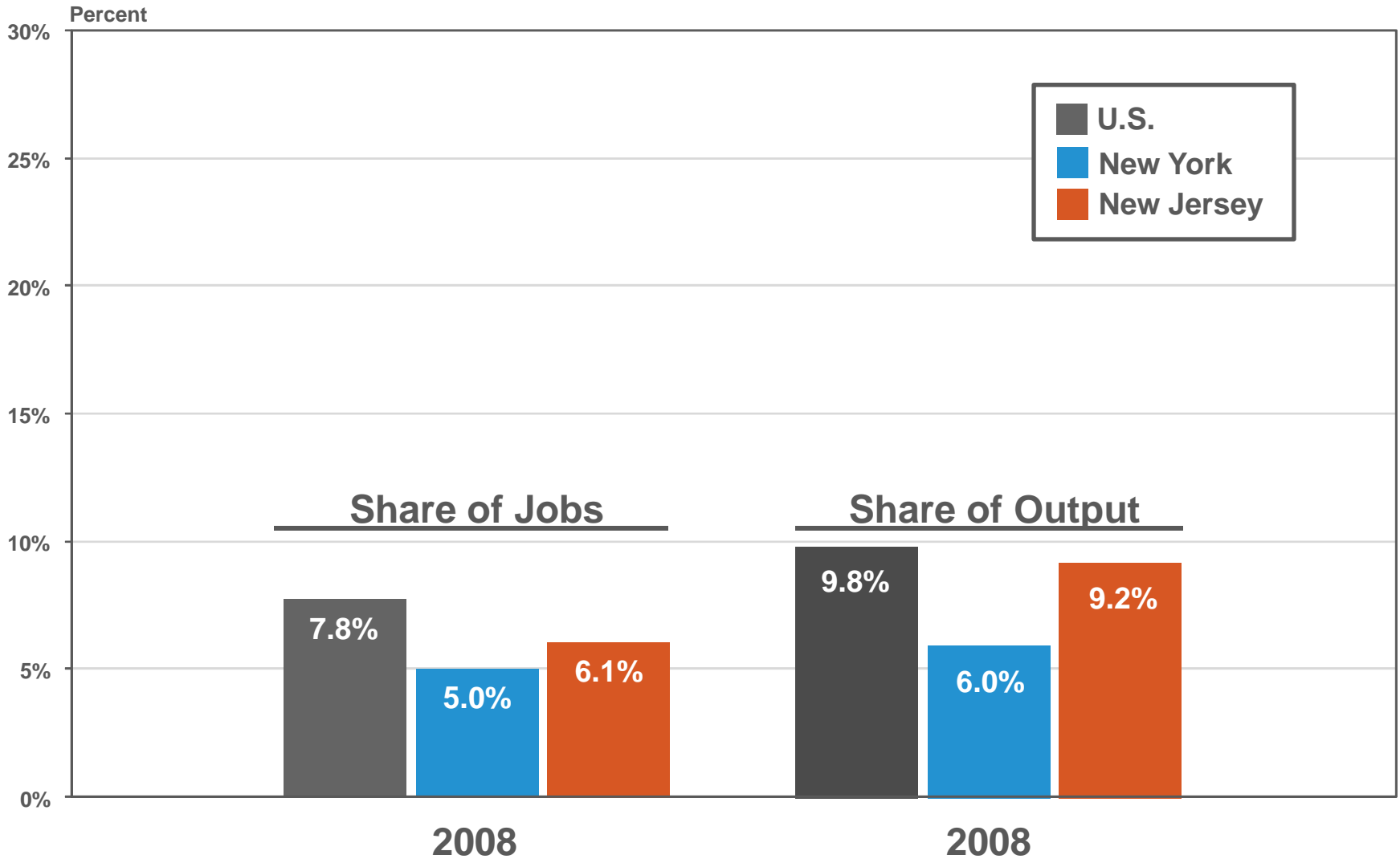
Share of Jobs in the Manufacturing Sector

Manufacturing's Share of Total Employment



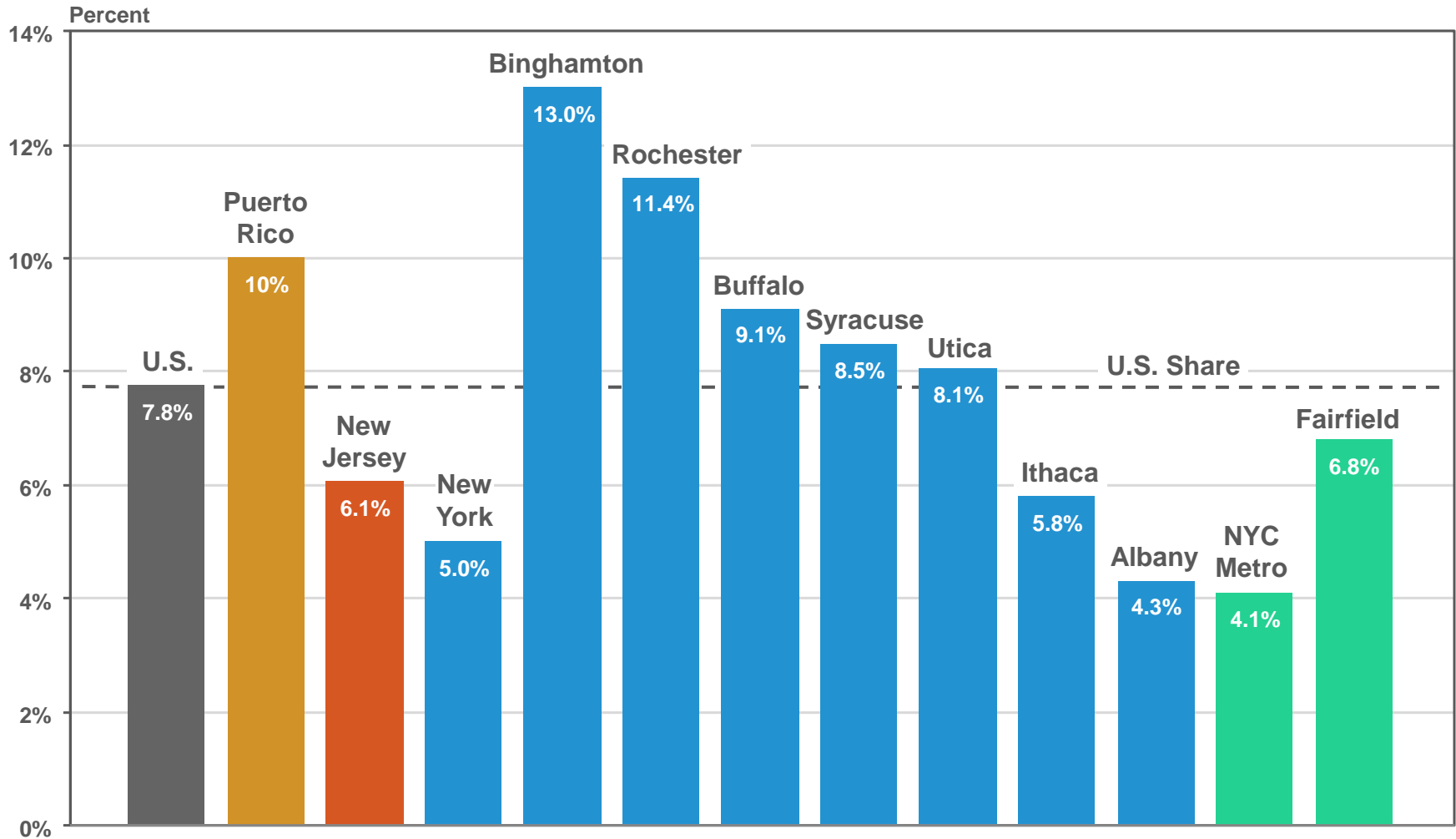
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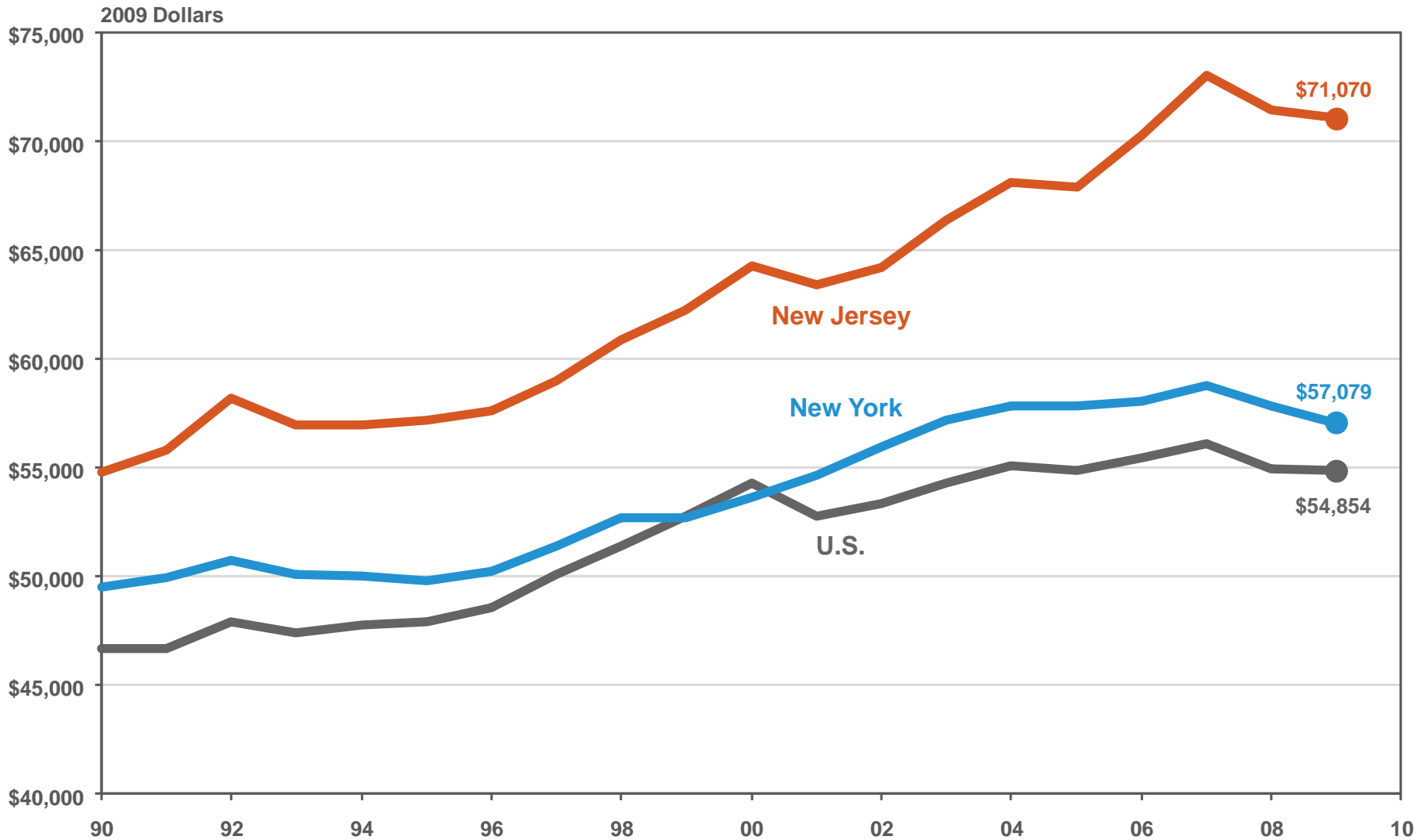
Manufacturing's Current Share of Employment

Manufacturing's Share of Total Employment in 2008



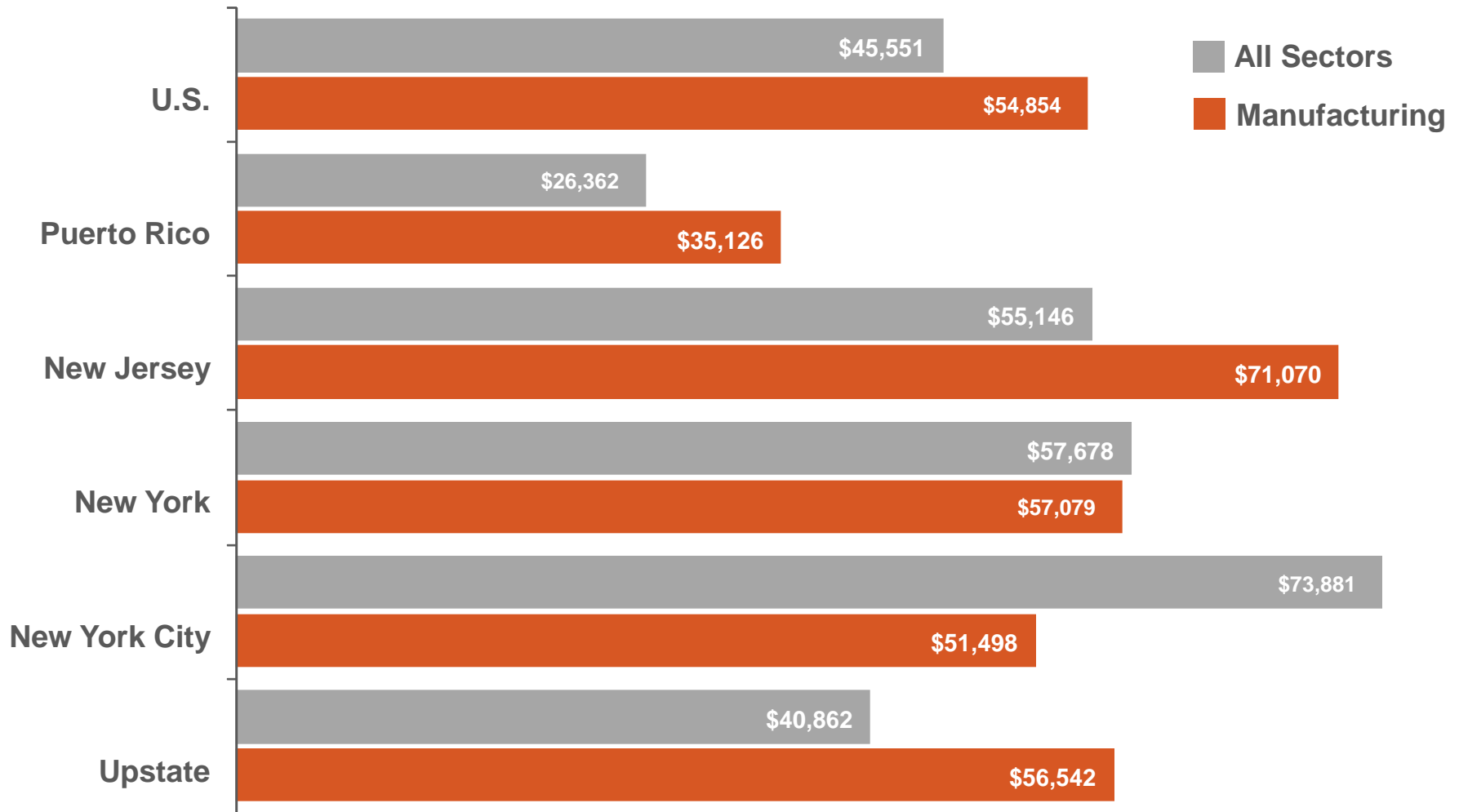
Average Manufacturing Wage

Adjusted for Inflation, Measured in 2009 Dollars

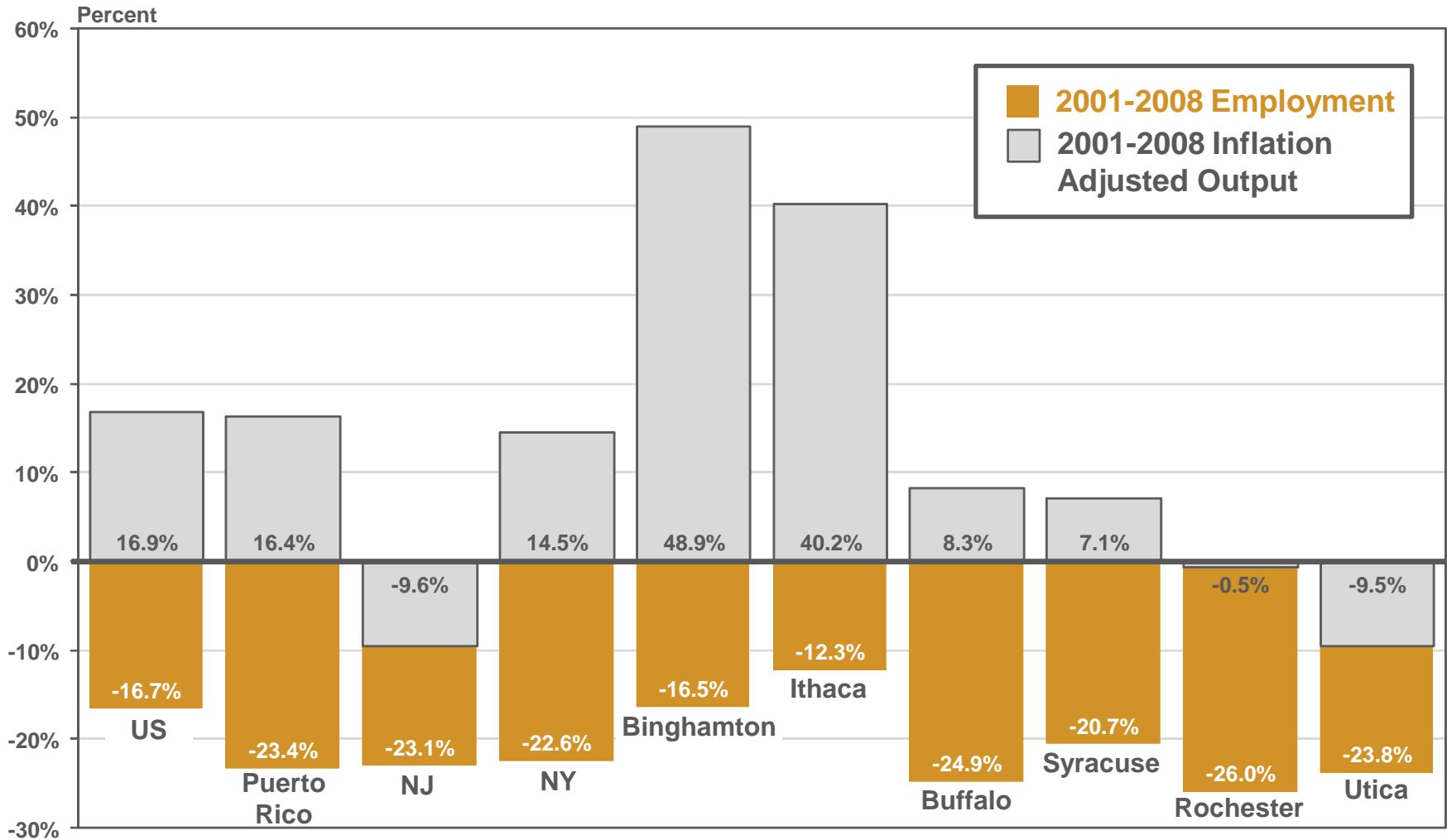


Average Wages in Manufacturing and Overall

Average Manufacturing Wage and Average All-Sector Wage, 2009



Change in Manufacturing Employment versus Output



Change in Manufacturing Employment in Recent Months

Manufacturing Job Gains and Losses by Region

	U.S.	New York	New Jersey	Puerto Rico
Average Monthly Change in 2008 and 2009	-80,000	-3,100	-1,600	-1,300
January 2010	+22,000	+600	-1,300	+2,170
February 2010	+16,000	-200	-500	-170
March 2010	+19,000	-1,800	-3,100	-540
April 2010	+38,000	+1,500	+2,000	+420
May 2010	+32,000	+1,900	+2,500	+160
June 2010	+9,000	-2,600	-1,800	-570
Monthly Change 2010 (Year-to-Date)	+22,667	-100	-367	+245



Summary

- Manufacturing employment has been in long-term decline, but the industry remains important for much of the region
- Recent cyclical job gains have paused in New York, New Jersey and Puerto Rico
- Looking ahead, the nature and course of the employment recovery in the region is unclear

Empire State Manufacturing Survey

- What is it?
 - Monthly survey of manufacturing firms in NY State
 - Asks about current & expected trends in business indicators
 - Mostly conducted on-line; in the field first 10-12 days of month
- Why do we do it?
 - Early read on current trends in regional economy
 - Opportunity to ask topical (rotating) questions each month
 - Complements other Federal Reserve Banks' surveys
- Whom do we survey?
 - Manufacturing establishments from a diverse set of industries from throughout NY State

Empire State Manufacturing Survey

Response Form

July vs. June

Decrease No Change Increase

General Business Conditions:

What is your evaluation of the level of general business activity?

How to Derive Our Headline Diffusion Index

- In the July survey (after seasonal adjustment):
27% say Increase 52% say No Change 22% say Decrease
- Diffusion Index = Increase – Decrease
- The Diffusion Index equals +5, because positive responses outnumber negative responses by 5 percentage points ($27 - 22 = 5$)
- The Diffusion Index measures breadth (not magnitude) of change

Empire State Manufacturing Survey

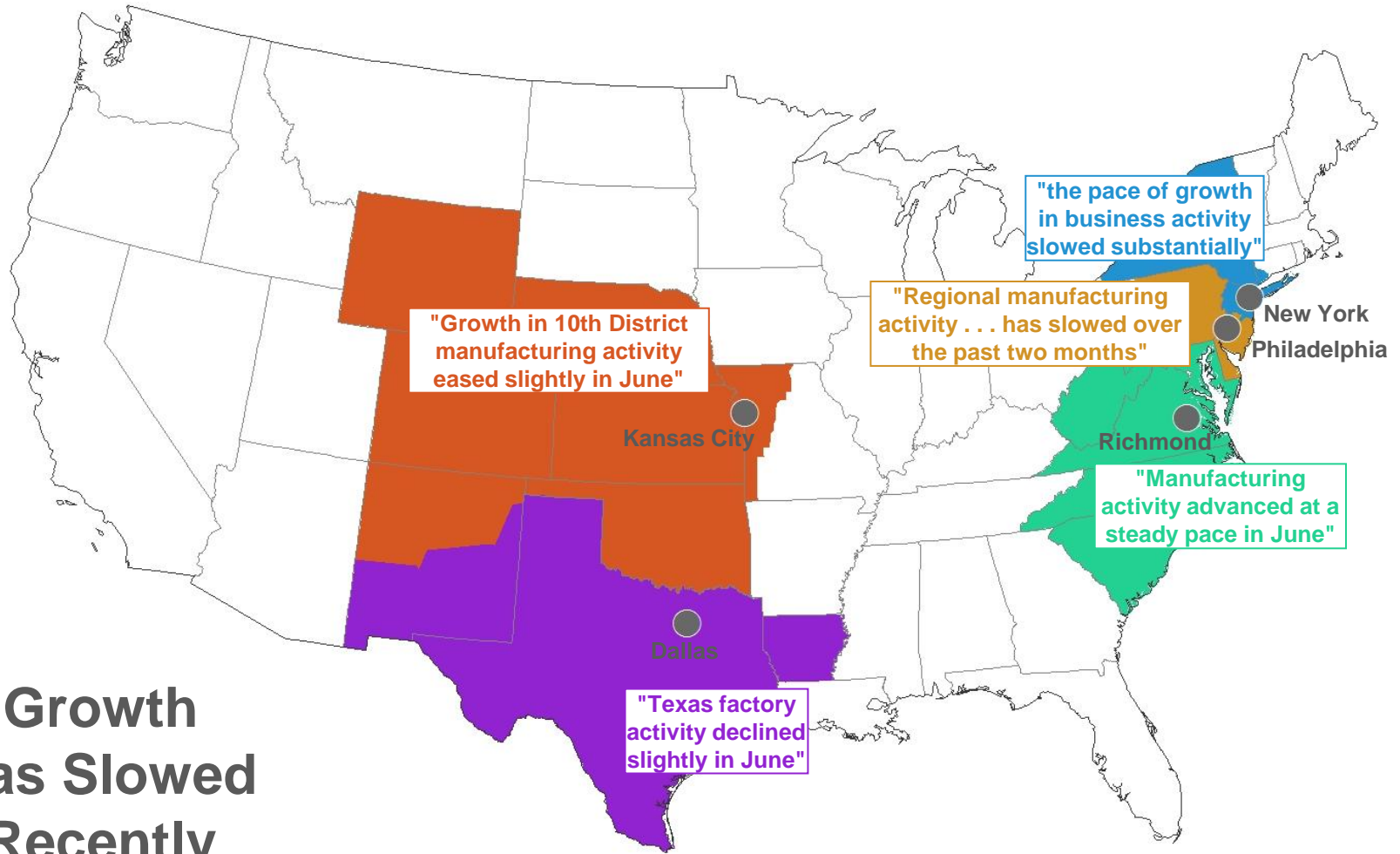
Response Form

	July vs. June			Six Months From Now vs. July		
	Decrease	No Change	Increase	Decrease	No Change	Increase
General Business Conditions:						
What is your evaluation of the level of general business activity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Company Business Indicators relating to your facilities in New York State:						
New Orders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Shipments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unfilled Orders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Delivery Time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inventories	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prices Paid	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prices Received	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Number of Employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Average Employee Workweek	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Capital Expenditures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Technology Spending	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



Manufacturing Surveys

Federal Reserve Districts



**Growth
Has Slowed
Recently**



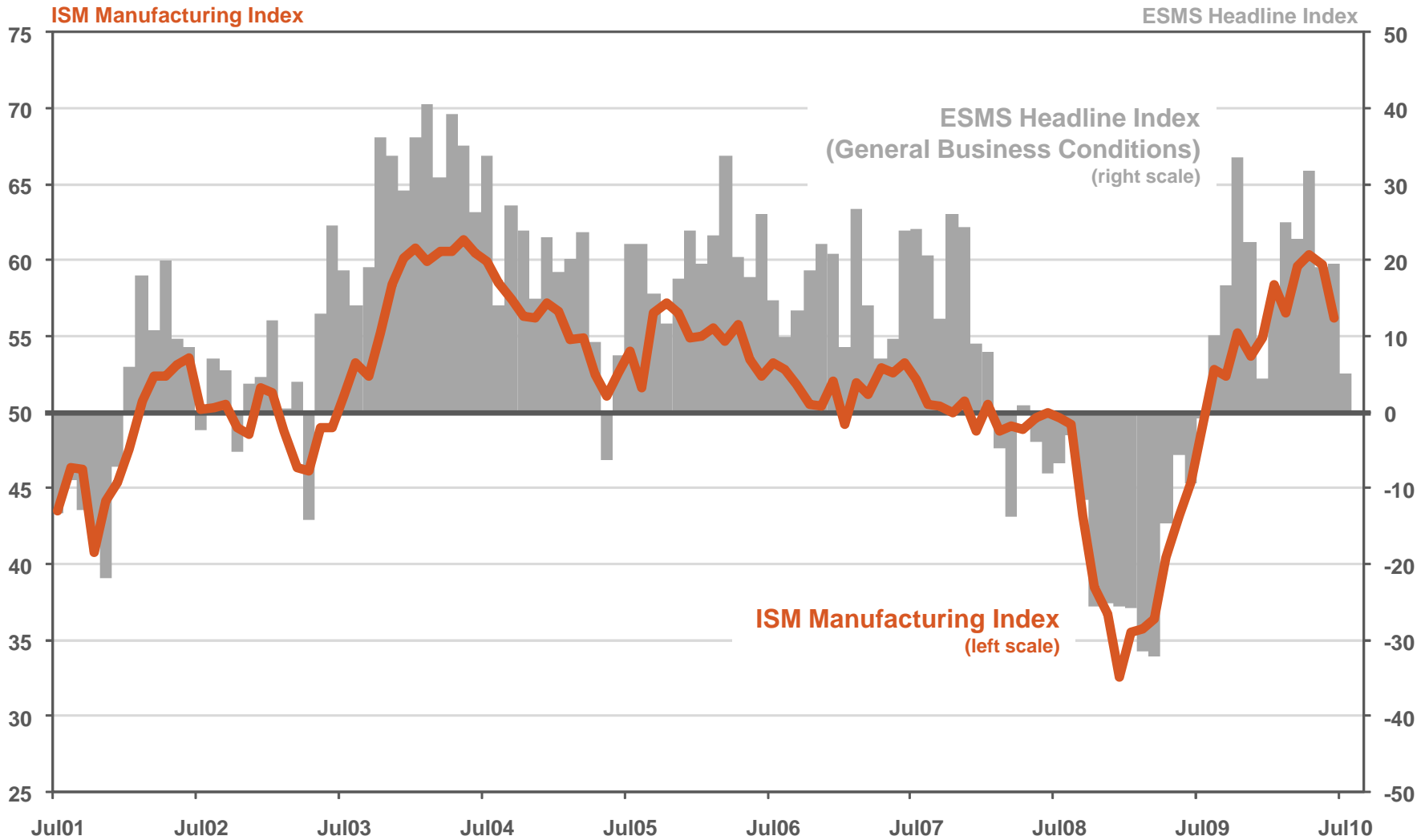
Manufacturing Surveys

U.S.



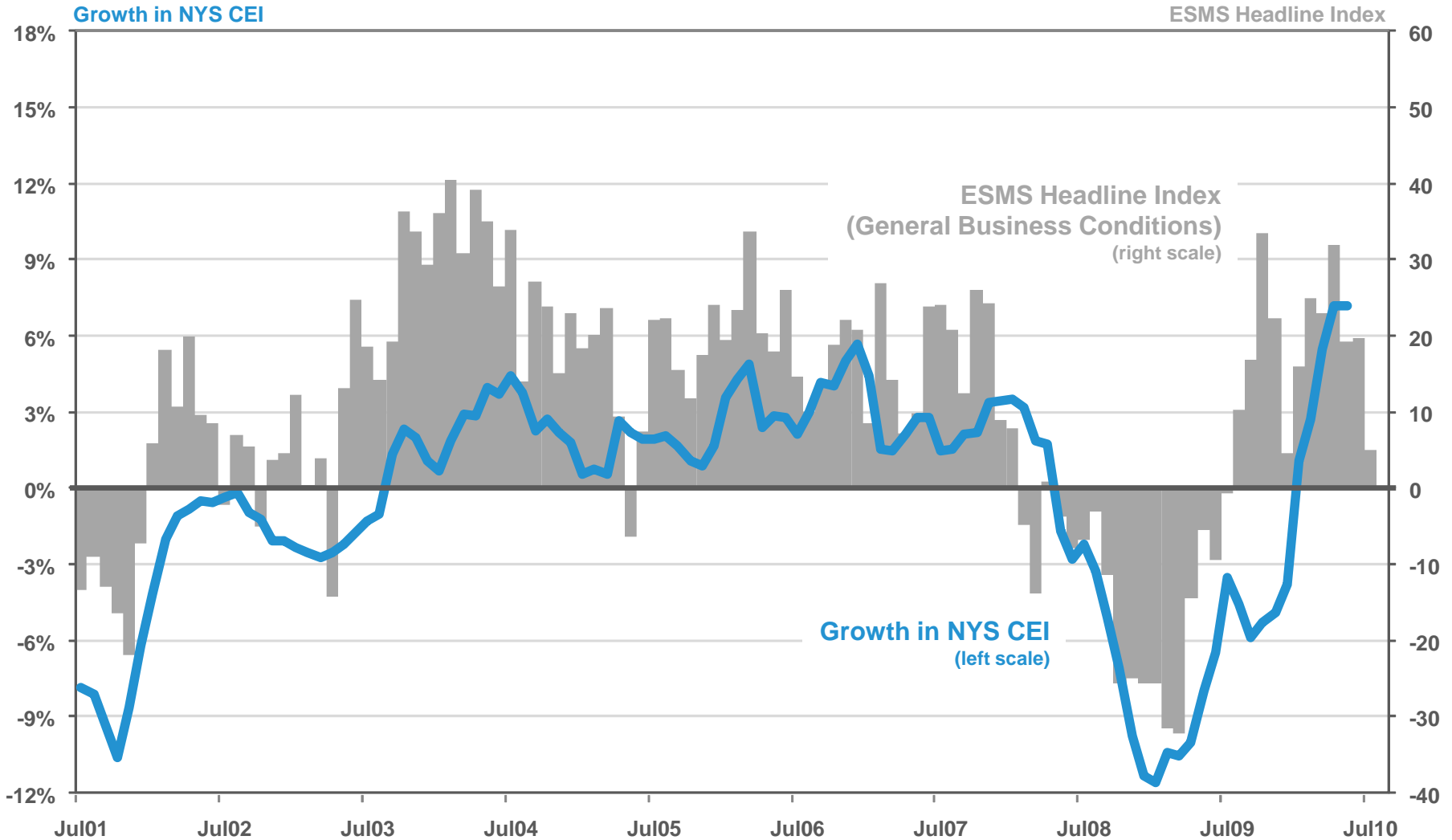
Empire State Manufacturing Survey Comparison

General Business Conditions Compared to **ISM Headline Composite Index**



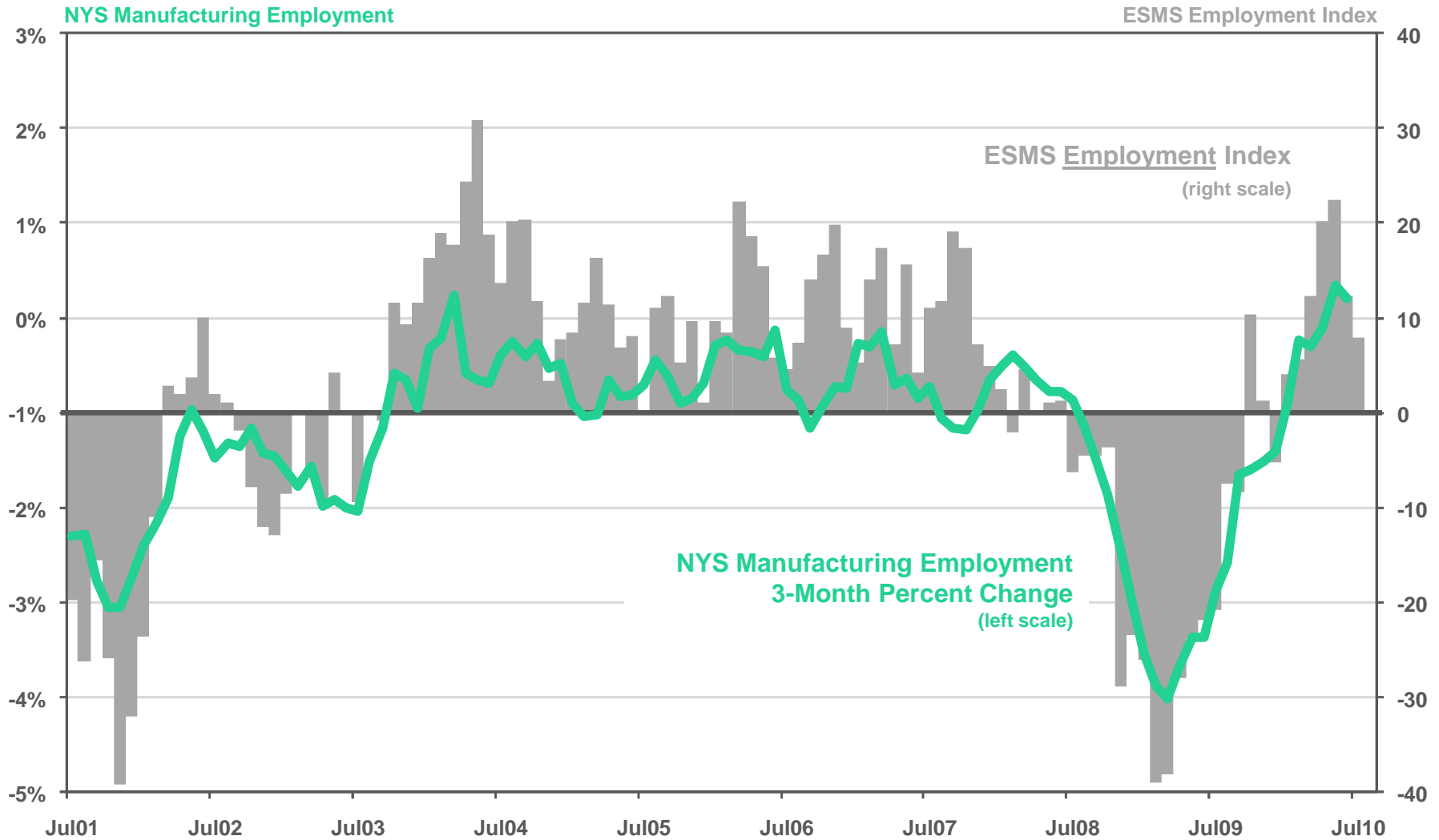
Empire State Manufacturing Survey Comparison

General Business Conditions Compared to **Index of Coincident Economic Indicators**



Empire State Manufacturing Survey Comparison

Employment Diffusion Index Compared to **NYS Manufacturing Employment**

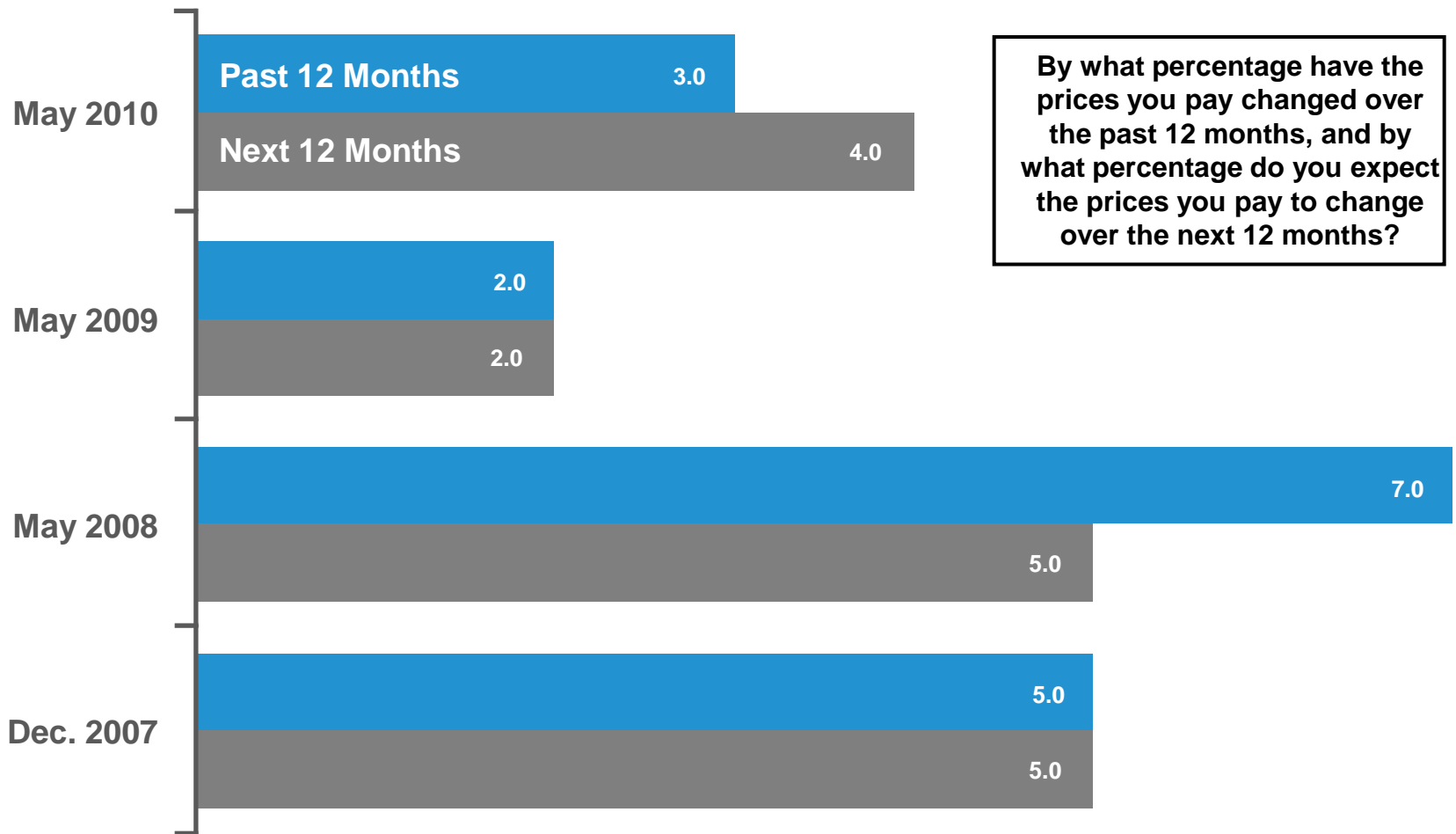


Recent Supplemental Surveys

- July 2010 - Outlook for second half of 2010 and export markets
- June 2010 - Capital spending
- May 2010 - Past and expected changes in prices
- April 2010 - Most significant problems
- March 2010 - Borrowing needs and credit standards
- February 2010 - Recent & expected changes in workforce
- January 2010 - Factors driving capital spending plans
- December 2009 - Prices paid for major budget categories
- November 2009 - Debt, cash, financing and credit

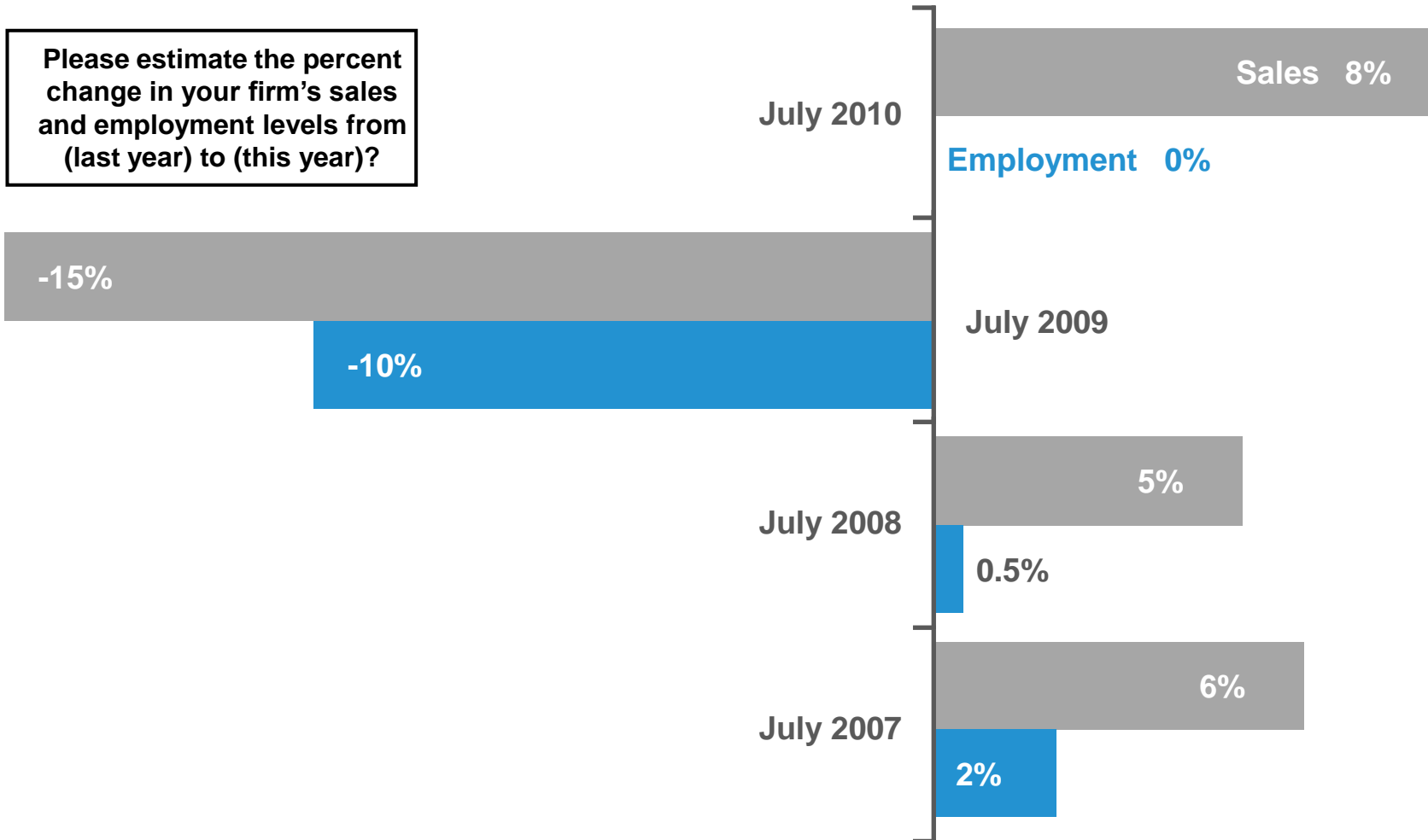
Empire State Manufacturing Survey Supplemental Surveys – Prices Paid

Past and Expected Changes in Prices Paid, Median Percentage Change (May 2010)



Empire State Manufacturing Survey Supplemental Surveys – Sales and Employment

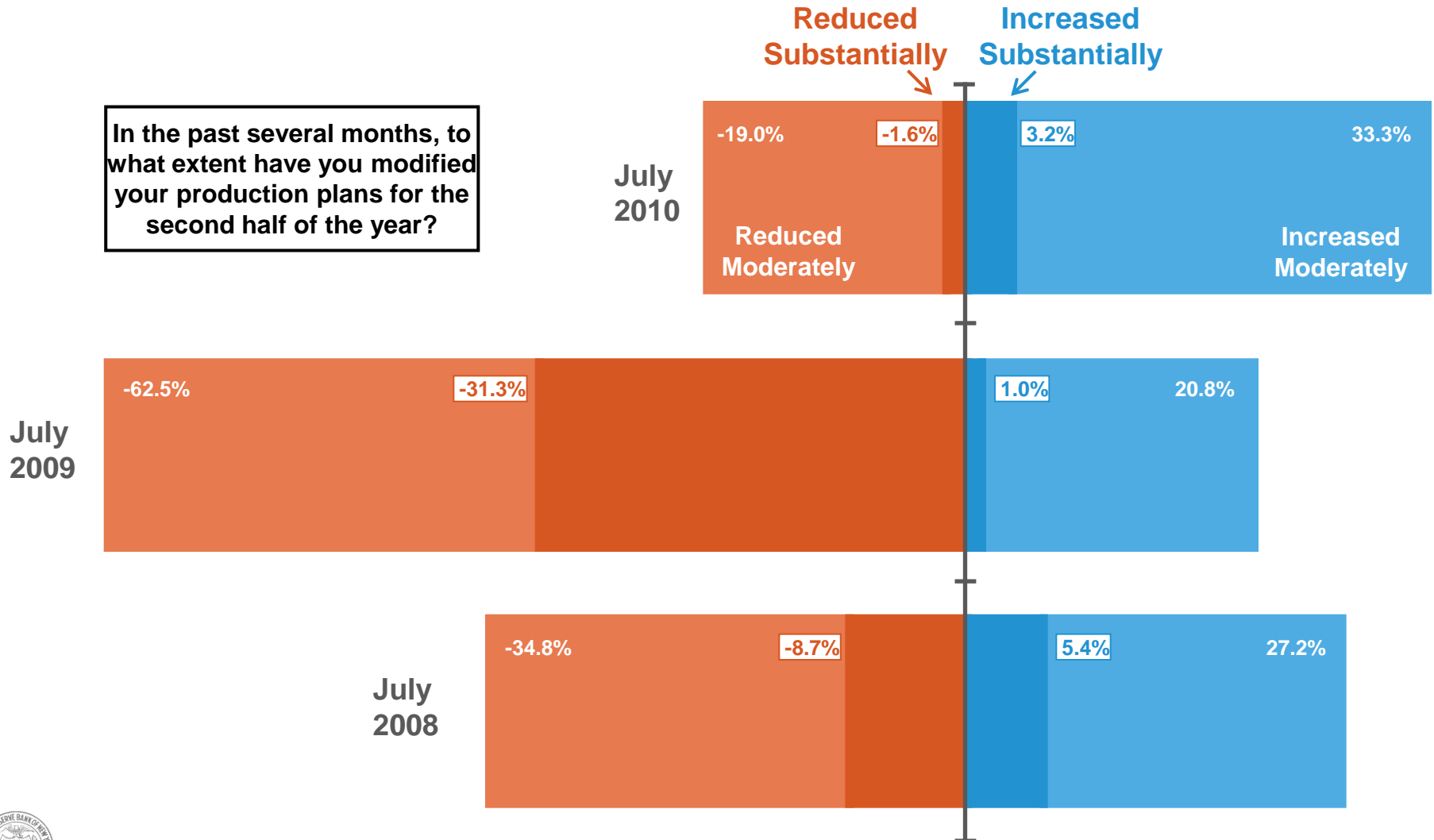
Median Estimated Percent Change from Prior Year to Current Year (July 2010)



Empire State Manufacturing Survey Supplemental Surveys – Production Plans

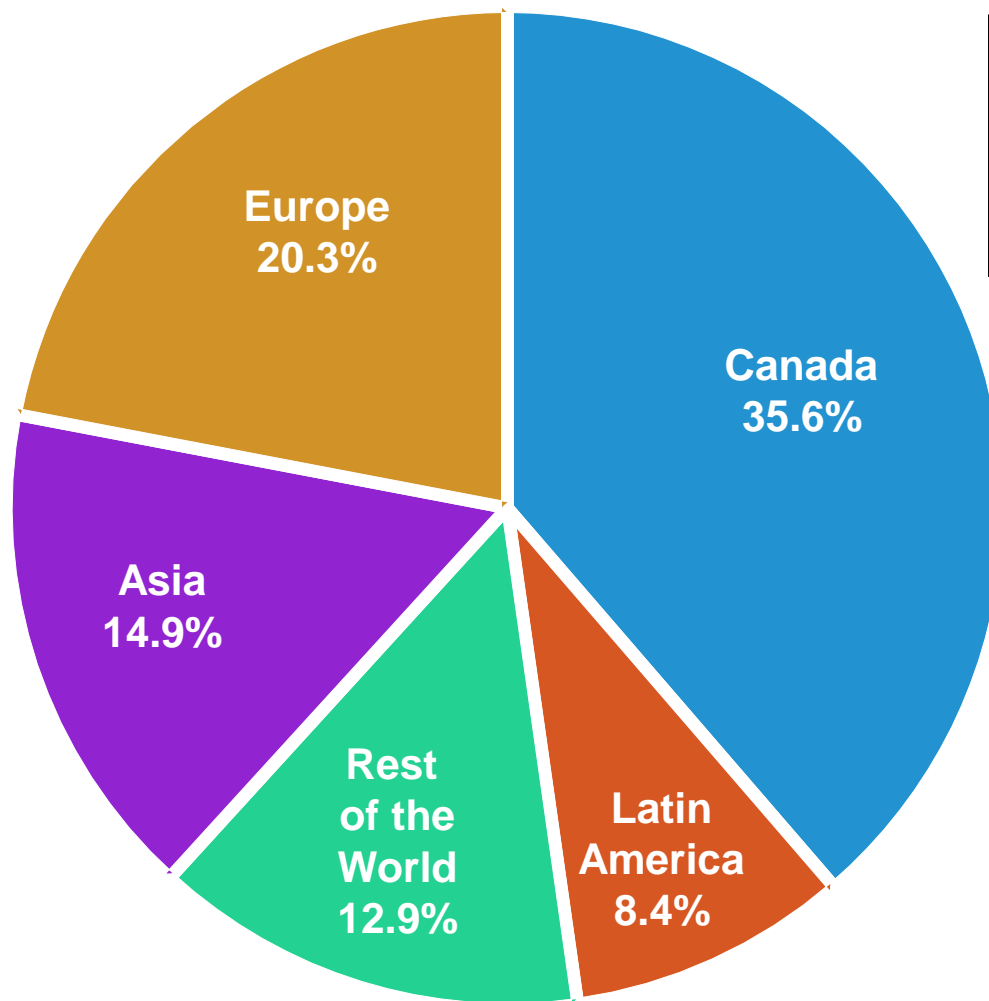
Percentage of Respondents (July 2010)

In the past several months, to what extent have you modified your production plans for the second half of the year?



Empire State Manufacturing Survey Supplemental Surveys – Resources Spent Marketing Abroad

Average Response (July 2010)



Of all the resources you expend selling/marketing abroad, roughly what proportions would you estimate is targeted toward ... ?

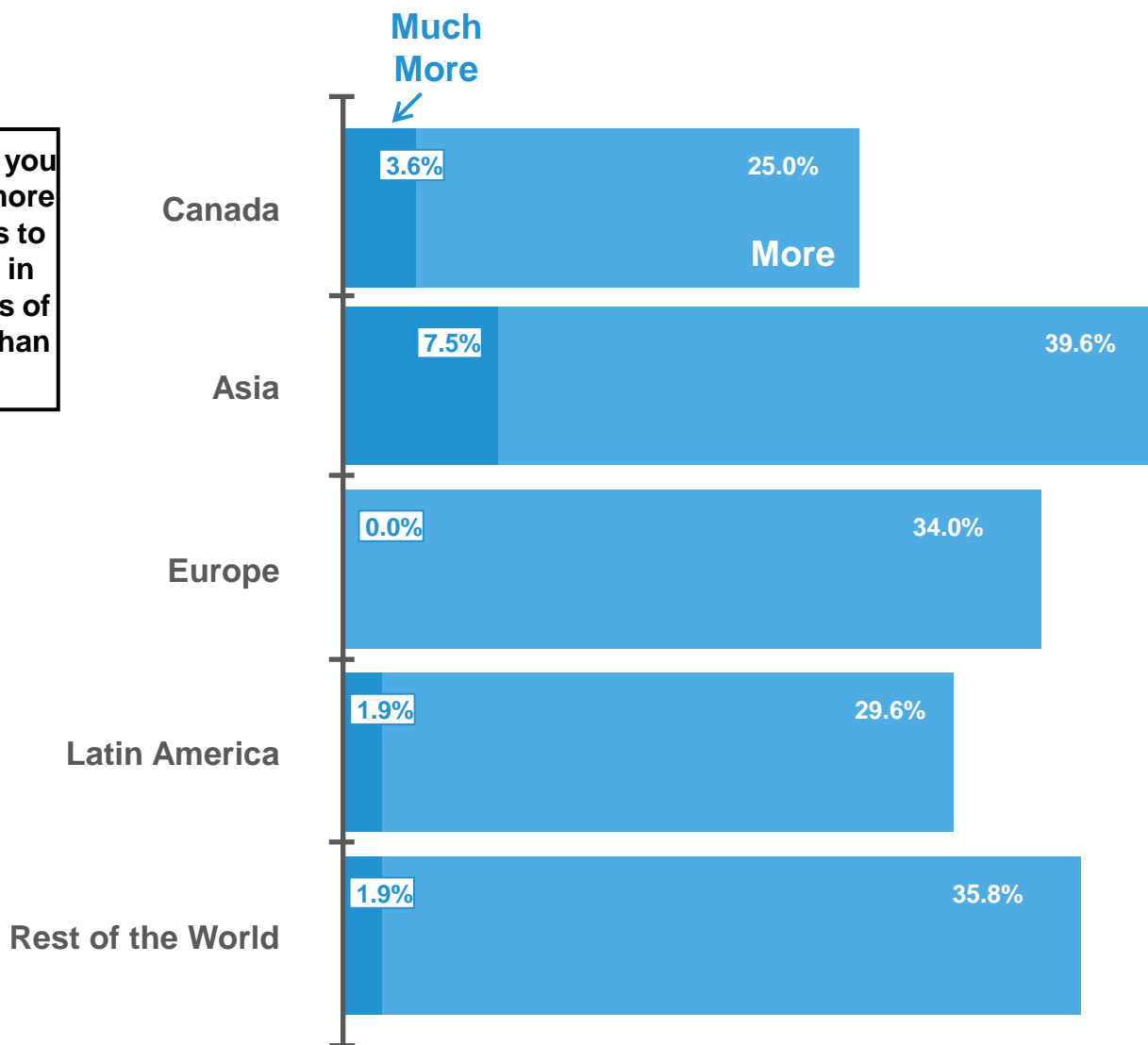


Empire State Manufacturing Survey

Supplemental Surveys – Resources Spent Marketing Abroad

Percentage of Respondents (July 2010)

Looking ahead, do you plan on devoting more or fewer resources to selling/marketing in each of these areas of the world in 2011 than in 2010?



Summary

- The Empire State Manufacturing Survey gives a timely read on developing economic conditions in our region
- The regional Fed surveys, taken together, are helpful in monitoring the US economy in real time
- Manufacturing activity grew briskly in the first half of 2010 but now appears to be decelerating
- Supplemental surveys help us better understand various aspects of the business and economic landscape and how they are changing