



Written by [Bob Adelman](#) on April 18, 2018

## Empire State Survey: Manufacturing Optimism “Tumbles”

It wasn't the headline from the Empire State Manufacturing Survey [released on Monday](#) that rattled investors, although it was bad enough: “The general business conditions [the current conditions] index, at 15.8, remained firmly in positive territory [anything above zero is a positive], although its *seven-point decline* from its March level pointed to a somewhat slower pace of growth.” (Emphasis added.) In March that current conditions index was at 22.5, having come off a previous high in October of almost 30.



It was what followed that rattled more than a few investors seeking cracks in the façade of the Goldilocks economy: “Firms’ optimism about the six-month outlook waned sharply, with the index for future business conditions plunging 26 points to its lowest level in more than two years.” The survey’s charts provided more than ample visual evidence of that “plunge”: Future general business conditions dropped a heart-stopping 25.8 points (from 44.1 in March to 18.3 in April); expectations for new orders were down 24.5 points (from 43.0 to 18.5)); expectations on shipments were off 24.8 points (from 43.3 to 18.5); and expectations about unfilled orders (a bullish indicator), dropped 4.8 points (from 7.0 points to a barely positive 2.2).

These indices rate the relative level of business conditions among 200 manufacturers in New York State. A level above 0.0 indicates improving conditions, and below 0.0 indicates worsening conditions.

Wolf Richter — founder of Wolf Street Corporation, which publishes his blog [Wolfstreet.com](#), and who is one of those seeking evidence of the death of a canary in the coal mine — explained why the drop was even worse than it appeared:

Executives are notoriously optimistic. In [this] survey, which goes back to 2001, expectations for future conditions are *always* higher than current conditions, and often by a big margin ... but the index for future conditions ... got crushed ... pushing the index down to 18.3, the lowest level since February 2016. The 25.8-point plunge from March to April was the steepest monthly plunge in the history of the survey. [Emphasis in original.]

Added Richter:

Over the history of the survey, the index for future conditions has been on average 31 points higher than the index for current conditions, attesting to the rampant and enduring optimism of the executive mindset about the future. But in April, the difference plunged to just 2.5 points, the smallest difference since 9-11, when it had plunged to 0.6 points.

Richter thinks the plunge is temporary, due primarily to concerns about a trade war potentially raising manufacturers’ prices for raw materials caught in the crossfire. Since then those concerns have been alleviated somewhat, and so there’s a chance that May’s future conditions index could rebound.

But what if there’s more here than just manufacturers’ reactions to the trade tiff? The second-largest



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plunge in the Empire State Manufacturing Survey occurred in January 2016 just as the S&P 500 Index was on its way down by nearly 20 percent.

The third steepest decline in the future conditions index happened in January 2009, during the financial crisis which saw the S&P 500 Index lose 50 percent of its value.

The survey could be nothing at all — a mere temporary expression of nervousness on the part of those CEOs and CFOs that will dissipate with the passage of time. On the other hand, it could be a harbinger, a crack in the façade, a dying sigh of the canary in the coal mine warning of imminent danger and a stock sell-off of historic proportions.

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