

# Supplemental Survey Report

## Service Firms Increasingly Inclined to Take on Debt, See Cash Balances as Low

The supplementary questions to the March 2016 *Empire State Manufacturing Survey* and *Business Leaders Survey* focused on cash holdings, debt levels, and methods of financing capital spending. Identical questions had been asked in surveys conducted in March 2015 and earlier (see table).

When queried about expected changes in their outstanding debt in the year ahead, 23 percent of manufacturers anticipated taking on more debt, while 38 percent expected to take on less. Among service firms, 26 percent of respondents predicted that their outstanding debt would rise, while 24 percent expected it would fall. On this question, manufacturers' responses did not differ much from earlier surveys, but service sector firms indicated a somewhat greater propensity to take on debt than in any of the earlier surveys. When asked about actual changes in debt over the past twelve months, nearly half of all manufacturing respondents said that debt levels had fallen, while well under a quarter said they had risen. Among service firms, the proportion reporting falling debt levels roughly matched that reporting rising levels.

In response to a question about projected changes in cash holdings, 40 percent of manufacturers expected cash holdings to rise, while 23 percent predicted they would fall. Among service sector firms, projections were more balanced: 30 percent expected cash on hand to rise, while 26 percent anticipated a decline. When asked to assess their current cash holdings (relative to the level of business activity), both manufacturers and service sector respondents reported that they were lower than usual, on balance. This marks a noteworthy shift for service sector firms—in the March 2015 survey, the percentage of firms citing cash holdings on the high side almost equaled the percentage reporting lower than usual holdings.

When asked how they would finance capital expenditures over the next twelve months, service sector firms planned to fund 62 percent of capital spending with cash, on average, down slightly from last year's survey; service sector respondents planned to use debt to finance 26 percent of their capital outlays, on average—a larger share than in earlier surveys. However, manufacturers

were more inclined than in last year's survey to use cash, and considerably less inclined to lease equipment.

Finally, in a series of questions that had not been posed before, respondents were asked about expected changes, over the next twelve months, in both compensation and the cost of living. Specifically, firms were asked about expected changes in compensation per employee at their firm, their workers' cost of living, and the cost of living nationwide. The average expected increase in compensation was 3.4 percent at service sector firms and 2.8 percent at manufacturing firms; the median expected increase was 3.0 percent for both. When asked about expected changes in the general cost of living for their workers—that is, the cost of goods and services where their workers reside—manufacturers anticipated an average increase of 2.3 percent, while service sector respondents projected an average rise of 2.7 percent. The expected hike in the cost of living for consumers nationwide was expected to be marginally less, on average, for both groups of respondents. ■

## Supplemental Survey Report, *continued*

### QUESTION 1

How do you expect your firm's debt levels to change over the next twelve months?

	Empire State Manufacturing Survey			Business Leaders Survey		
	Percentage of Respondents			Percentage of Respondents		
	March 2014	March 2015	March 2016	March 2014	March 2015	March 2016
Increase a lot	3.6	3.2	4.2	3.3	3.0	6.2
Increase a little	21.4	17.0	18.8	15.7	15.2	20.0
Remain the same	41.7	41.5	39.6	56.2	53.0	50.0
Decrease a little	32.1	33.0	37.5	21.5	25.8	20.0
Decrease a lot	1.2	5.3	0.0	3.3	3.0	3.8

How have your firm's debt levels changed over the past twelve months?

	Empire State Manufacturing Survey			Business Leaders Survey		
	Percentage of Respondents			Percentage of Respondents		
	March 2014	March 2015	March 2016	March 2014	March 2015	March 2016
Increased a lot	9.9	8.6	10.3	4.9	6.9	9.2
Increased a little	16.0	21.5	11.3	22.8	16.8	18.5
Remained the same	35.8	41.9	30.9	45.5	49.6	42.3
Decreased a little	32.1	26.9	40.2	24.4	22.1	25.4
Decreased a lot	6.2	1.1	7.2	2.4	4.6	4.6

### QUESTION 2

How do you expect your firm's cash balances to change over the next twelve months?

	Empire State Manufacturing Survey			Business Leaders Survey		
	Percentage of Respondents			Percentage of Respondents		
	March 2014	March 2015	March 2016	March 2014	March 2015	March 2016
Increase a lot	0.0	6.4	1.0	3.3	5.3	3.8
Increase a little	38.6	36.2	38.8	34.7	30.5	26.0
Remain the same	32.5	36.2	36.7	38.0	41.2	44.3
Decrease a little	20.5	14.9	17.3	21.5	19.8	21.4
Decrease a lot	8.4	6.4	6.1	2.5	3.1	4.6

## Supplemental Survey Report, *continued*

### QUESTION 3

How would you describe your current cash balances relative to your level of business activity?

	Empire State Manufacturing Survey			Business Leaders Survey		
	Percentage of Respondents			Percentage of Respondents		
	March 2014	March 2015	March 2016	March 2014	March 2015	March 2016
Much higher than usual	6.0	1.1	0.0	2.4	3.8	0.0
Somewhat higher than usual	13.1	13.7	18.1	16.3	18.8	16.0
At about the usual level	42.9	53.7	47.9	55.3	52.6	53.6
Somewhat lower than usual	27.4	21.1	20.2	17.1	17.3	23.2
Much lower than usual	10.7	10.5	13.8	8.9	7.5	7.2

### QUESTION 4

How do you expect to finance capital spending over the next twelve months?

	Empire State Manufacturing Survey			Business Leaders Survey		
	Average Percentage of Capital Spending			Average Percentage of Capital Spending		
	March 2014	March 2015	March 2016	March 2014	March 2015	March 2016
Cash	62.0	54.6	58.0	65.5	68.6	61.7
Debt	27.7	30.5	33.7	22.1	18.9	25.6
Equity	0.6	2.6	2.3	4.4	4.5	4.5
Leasing of equipment	9.7	12.2	6.0	8.1	7.9	8.3

### QUESTION 5

By what percent do you expect each of the following to change over the next twelve months?

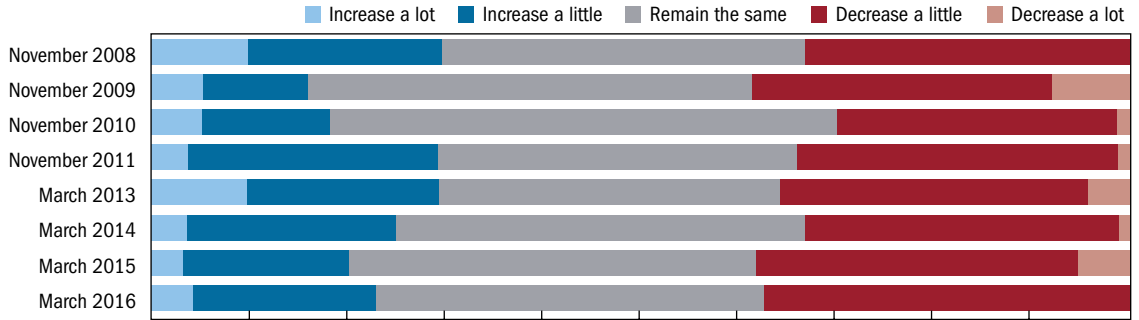
	Empire State Manufacturing Survey		Business Leaders Survey	
	Expected Percentage Change		Expected Percentage Change	
	Mean March 2016	Median March 2016	Mean March 2016	Median March 2016
Compensation you firm will pay per employee (for wages and benefits)	2.79	3.00	3.44	3.00
Prices your employees will pay (for goods and services where they live)	2.27	2.00	2.69	2.00
Prices U.S. consumers will pay (for goods and services )	2.03	2.00	2.64	2.00

# Supplemental Survey Report, *continued*

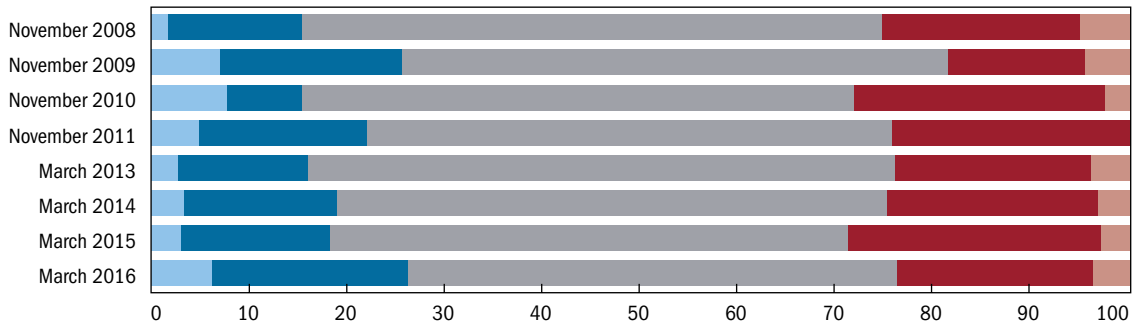
**HISTORICAL OVERVIEW FOR QUESTION 1**

**How do you expect your firm's debt levels to change over the next twelve months?**

Empire State Manufacturing Survey



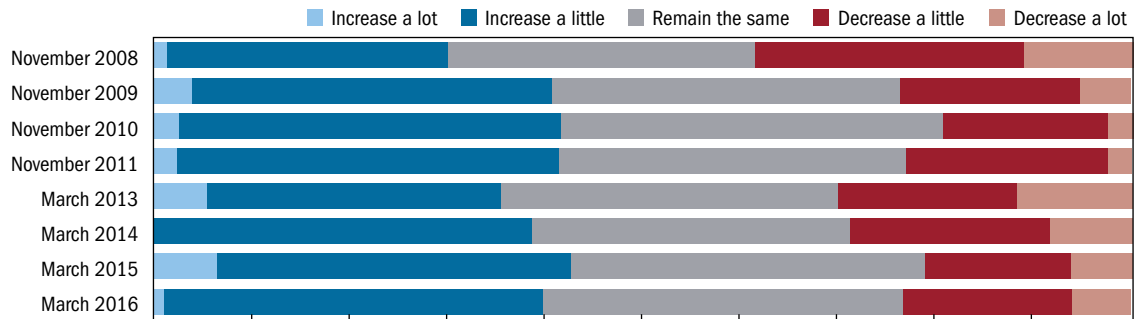
Business Leaders Survey



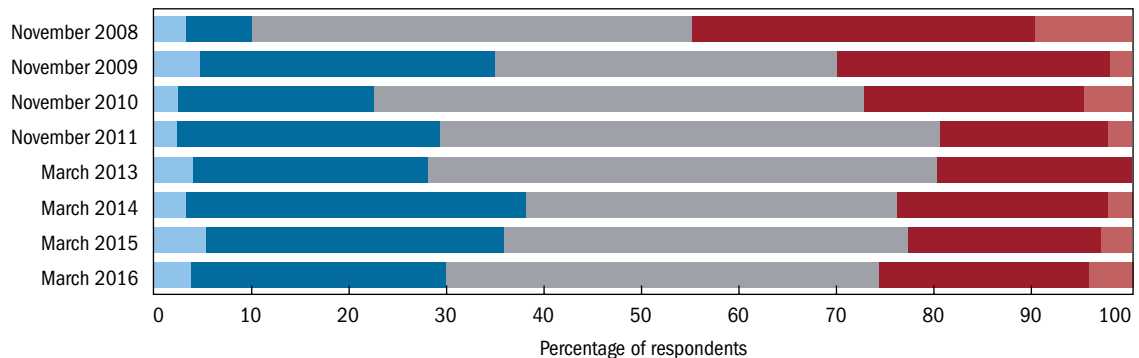
**HISTORICAL OVERVIEW FOR QUESTION 2**

**How do you expect your firm's cash balances to change over the next twelve months?**

Empire State Manufacturing Survey



Business Leaders Survey

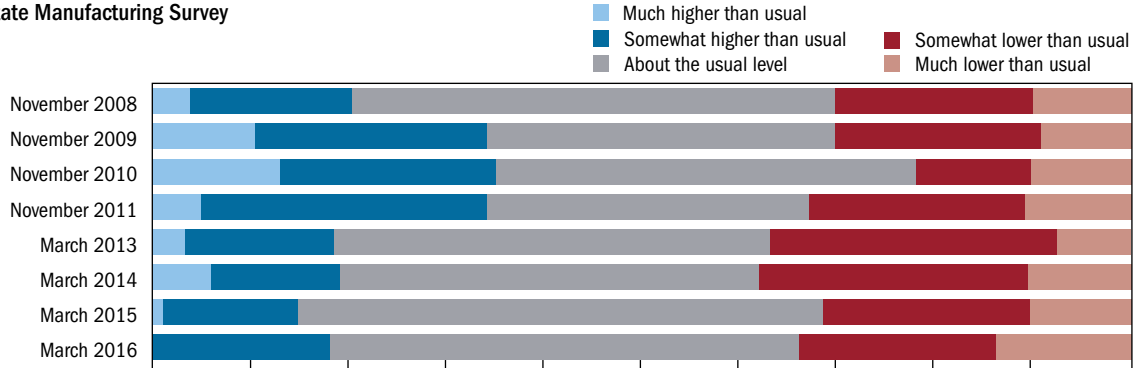


# Supplemental Survey Report, *continued*

**HISTORICAL OVERVIEW FOR QUESTION 3**

**How would you describe your current cash balances relative to your level of business activity?**

**Empire State Manufacturing Survey**



**Business Leaders Survey**

